

ZAIRE: SPECIAL REPORT

How Mobutu built up his \$4bn fortune

Seen at first as a bastion against communism, Zaire's president proceeded to siphon off vast resources while the west looked the other way. Jimmy Burns and Mark Huband investigate

A stone pedestal before the private driveway of the Villa del Mar commemorates Sir Winston Churchill as a *citoyen d'honneur* of Cap Martin. Off Avenue Churchill a shaded cul-de-sac leads to the French Riviera residence of Mr Mobutu Sese Seko, the Zairean president, which serves as a monument of a different sort.

Iron gates, and a sign warning unwelcome visitors that guard dogs may be snarling on the other side of the wall, hide the villa, which a local estate agent estimated as being worth FF75m-FF80m (\$13m-\$5.2m).

"It's the children he brings with him that we see the most," said the owner of the nearby newsagent. "The seven- and eight-year-olds who come in here with wallets full of FF500 notes, and buy up everything. Even the children are richer than me. But we know how he got all that money, and we wouldn't like it if he came here to retire. We would object. The people of France would object."

The Mobutu story is about the venality and corruption of one of Africa's most eccentric dictators, and how and why he persuaded others to help him during his 32-year rule. It is about personal enrichment and the plundering of the nation, and the international complicity that made it possible.

An FT investigation has found that in spite of clear evidence from early in his regime that Mr Mobutu misappropriated and wasted funds, financial institutions, with the blessing of their governments, continued to give aid, little of which found its way to the ordinary people of Zaire.

Property is the most visible part of his overseas asset structure. The Villa del Mar is the largest of a cluster of luxury homes dominating a small hill leading down to the Mediterranean.

It is one of 20 identified properties held by Mr Mobutu and his entourage, from Belgium to Ivory Coast, from Switzerland to Morocco, with a minimum estimated value of \$23m (\$37m), according to estate agents' estimates and property records obtained by the FT. His and his family's property portfolio also extends to a hotel and residences in South Africa, as well as a coffee plantation in Brazil.

Obscuring the extent of investments financed essentially with funds embezzled from the Zairean state, much of the property is held in the names of front companies, business associates and family members not using the Mobutu name.

The FT has established that the largest concentration of properties is in the wealthy suburbs of the Belgian capital, Brussels. The true size of his fortune, amassed during three decades of plunder, is said by US Treasury and IMF officials to have peaked at around \$4bn in the mid 1980s. But his fortune has been trimmed as the cost of staying in power has grown.

Mr Mobutu himself was a creature of the cold war. In 1960 Patrice Lumumba became prime minister of what had previously been Belgian Congo and began courting the eastern bloc. The US Central Intelligence Agency reacted by considering Lumumba's assassination and sought an alternative leader as a bastion against communism. It found the 30-year-old army chief Joseph-Désiré Mobutu, whose associates arrested and killed Lumumba without CIA assistance later the same year.

"The US stepped in at independence because the place was a plum financially," said Mr John Stockwell, former CIA chief of base in Zaire. "At that time people were impressed by Mobutu. In 1960 nobody was prepared for what happened [later]."

For more than 20 years western

presidents, generals, spies and bankers made no attempt to curb his excesses, but saw him as a necessary ally against communism. Only in the post-cold war years has Mr Mobutu found his fortune insufficient to retain his grip on power.

In 1965 Mr Mobutu took over a country rich with enormous reserves of copper, cobalt, diamonds, timber, as well as vast tracts of land suitable for producing coffee and cocoa.

Between 1970 and 1984 Zaire received \$8.5bn in grants and loans from western donors. Export earnings for the same period, less a five-year gap for which figures are not available, were \$10.7bn, according to the IMF.

"Given these sorts of numbers it would be hard to argue much was achieved in Zaire, either in economic or social terms, as a result of the aid," an internal World Bank report stated this week.

Throughout his rule Mr Mobutu has used the promise of access to Zaire's wealth as a means by which opponents have been softened, critics silenced and henchmen rewarded.

"Mobutu used a patronage network. He had to put out a lot of money to stay in power. He has a tremendous need for cash," said a former US assistant secretary

Aid to Zaire (\$m)

Year	Total	Bilateral	Multilateral
1982	347.4	256.4	91.0
1983	311.0	193.7	117.3
1984	302.6	209.3	93.3
1985	305.8	209.5	96.3
1986	248.3	259.3	182.0
1987	626.8	338.4	288.4
1988	578.1	402.7	175.4
1989	635.4	434.2	201.2
1990	902.3	709.8	192.5
1991	476.7	342.6	134.1
1992	268.1	164.2	103.9
1993	178.4	99.0	79.4
1994	245.6	97.2	148.4

Source: OECD

of state for African affairs who had daily contact with him. "He had to pay a 10,000-strong presidential guard. And he seems to have trusted a lot of people who stole from him, including his own children. He would give them \$5m in cash for investment, and it would be stolen."

"In the first few years Mobutu received millions of dollars from the CIA," both before and after he seized power, said Mr Stockwell. "\$20m-\$25m of CIA and US government aid money could well have gone through Mobutu's hands."

Following the outbreak of the Angolan civil war in 1975, money intended for the US-backed Unita forces in Angola was delivered to Mr Mobutu, who the CIA hoped would channel it to the rebels in support of their war against the Moscow-backed MPLA party.

"When Angola was coming under Cuban influence Zaire was considered a fortress that could be trusted. The policy of the west, led by the US, was to help Mobutu as much as possible," said Mr Leo Tindemans, Belgian prime minister from 1974 to 1978.

But Mr Mobutu quickly began to exploit his strategic importance to serve the system of embezzlement he was creating. "Early on we channelled \$1m via Mobutu intended for the Angolans. But Unita came to us soon after to tell us: we're hungry. We can't do anything. None of the money had gone to the Angolans, and our efforts to get Mobutu to pass the money on were futile," said Mr Stockwell, who ran the CIA's covert operation supporting Unita forces. "The CIA knew all along he was pocketing huge amounts of money."

Mr Mobutu had access to far larger sums than those that were provided by the CIA, on one occasion refusing a \$25,000 gift from the CIA station chief in Kin-

shasa, Mr Lawrence Devlin.

Presidential appropriations granted by parliament officially accounted for 30 to 50 per cent of the budget for capital investment from the late 1980s, reaching \$65m a year in 1988.

In addition to this presidential appropriation from parliament, which had no influence on how it was spent, Mr Mobutu received further funds for "political institutions" including the Mama Mobutu Foundation and the ruling Popular Movement for the Revolution party.

A World Bank report containing data for the period 1980-87 obtained by two US researchers, Mr Steve Askin and Ms Carole Collins, revealed that in 1986 the presidency received \$15m, though the World Bank document shows that Mr Mobutu spent \$94m and the political institutions \$172m that year, revealing the extent of other sources of funds.

A 1989 World Bank study showed \$205m of the year's state expenditure was appropriated for spending on what the Central Bank of Zaire termed as "other goods and services".

"There is no, I repeat no, chance on the horizon for Zaire's numerous creditors to get their money back... Mobutu and his government show no concern about the question of paying off loans and the public debt... there was, and there still is, one sole obstacle that negates all prospect: the corruption of the team in power," said Mr Erwin Blumenthal, a senior German banker seconded to the Zaire central bank in 1978, in a secret IMF report circulated in 1982, in the possession of the FT.

Three years earlier, in a letter of June 11 1978 to Mr Jacques de Larosière, then IMF director-general, Mr Blumenthal said: "Things in Zaire went the way I was afraid they would" and gave the strong impression of a breakdown of trust between the regime and IMF.

Mr Blumenthal's damning portrayal of the routine plunder of state finances was ignored by both foreign donors and governments. His report coincided with the build-up of Cuban troops in Angola, whose presence cemented US support for Mr Mobutu and may have been the reason why the banker's recommendations fell on deaf ears. By 1988 there were 50,000 Cuban troops on Angolan soil, fighting alongside the Marxist government against Unita.

IMF figures show the fund offered nine loans worth SDR 231m to Zaire between 1967 and 1982, when the Blumenthal report was completed. But three times this amount was offered by the fund between the year the report was written and 1989.

Mr Blumenthal identified special bank accounts held in the name of the Central Bank of Zaire at seven foreign banks in Brussels, Paris, Geneva, London and New York, holding millions in export earnings which had not been remitted. A key example of payments made to the special accounts reveals the amounts involved. In 1978 the state-owned copper and cobalt giant Gécamines was instructed to deposit its entire export earnings - which by 1989 had reached \$1.2bn - into a presidential account.

"At the beginning we thought Mobutu was the only person who could lead Zaire," said Mr Tindemans. "We thought he had the talent, capacity, and intelligence... then he changed. He just wanted the money from wherever he could get it, private companies, foreign governments. He had no feeling for financial policy but it didn't matter. He knew the money would keep on coming."

"It was not easy to formulate a common attitude towards Mobutu. There were those who invested in Zaire and flattered Mobutu and others who devel-

Mobutu: fact file

- Mobutu was born Joseph-Désiré Mobutu on October 14 1930 in Lisala, Belgian Congo.
- His full name, Mobutu Sese Seko Kuku Ngbendu waza Banga, translates as: the fearless warrior who will go from strength to strength leaving fire in his wake.
- Mobutu owns at least 20 properties in 10 countries.
- His major-domo is French, his military tailor Spanish, and his barber Portuguese.
- His villa in Portugal has a wine cellar for 14,000 bottles.
- On several occasions he has spent \$50m a time on chartering Concordes for foreign shopping trips.
- Zaire's health budget was the equivalent of 20 French centimes per person, per year, in 1991.
- Only 10 per cent of export earnings from diamonds was remitted to the state diamond authority in 1991.
- Zaire's total foreign debt in 1991 was \$9.6bn, excluding arrears.
- Debt repayment is now \$4.9bn in arrears.
- Per capita GDP was \$117 in 1993, 65 per cent lower than in 1983.

oped a stance against his government. There was no doubt where the balance lay."

A former Zairean secret service agent, Mr Emmanuel Dunga, recalled: "The money spent by Mobutu in seducing and corrupting senior politicians around the world gave him great satisfaction."

Mr Mamadou Touré, former head of the IMF's Africa department, who knew the special accounts were being used to divert export earnings by the regime, said: "In the late 1970s and early 1980s there were some very bizarre things going on in Zaire. For example, we had discovered that some of the country's export earnings were being held in special accounts outside Zaire and not being recorded in the accounts of the central bank. Instead of foreign earnings being reimbursed, they were diverted to special accounts held in commercial banks outside the country."

"Orders would come from Mobutu that he needed money for a foreign trip, and some senior officials would come to Europe to pick up the money from the special account. All the Central Bank of Zaire officials were intimidated. They felt they had to do what Mobutu told them."

However, things did not all go Mr Mobutu's way. "Two things hurt him," said a senior US official. "In 1978 the bottom fell out of the copper market, and people receiving his patronage wanted to be paid in dollars instead of zaires. Then in 1980 he ended the one-party system and started 45 parties with his money, in order to keep his grip. This took a lot of money, which he took from the productive sector - the mines, first the copper mines, then the diamond mines."

More recently he spent millions of dollars financing a disastrous attempt to use Bosnian Serb mercenaries in his campaign to confront the rebel force which is now poised to overthrow him. However much his wealth has

shrunk in recent years, Mr Mobutu remains extremely wealthy, with a fortune encompassing shares in big Swiss and German companies, liquid cash and his property portfolio centred in Brussels.

His assets in Zaire comprise a vast estate at Chabalite in northern Zaire which boasts a marble palace, Olympic-size swimming pool, and airport runway able to accommodate Concordes. Outside Kinshasa, the Nsese presidential domain has a large Chinese-style pagoda crowned with a malachite pinnace. Nearby is moored the Kamanyola, a three-storey river steamer converted to suit Mr Mobutu's love of luxury. Oyster-shaped sofas in pink silk grace the salons, and Mr Mobutu's leopard-head emblem emblazons cutlery, linen and tableware.

A total of nine properties in Brussels ranges from office blocks to chateaux and mansions set in their own parklands in the exclusive residential districts of Uccle and Rhode St Genese. One property is close to the Musée de l'Afrique, built to commemorate exploits of the first plunderer of Zaire's immense wealth, Belgium's King Leopold II.

In Paris, a few metres from the Arc de Triomphe, a first-floor apartment at No 20 Avenue Foch, in the city's exclusive 17th district, provides Mr Mobutu with an 800 sq m city residence close to the furrier who made his seven leopard-skin hats, and convenient for visits to the succession of French presidents who have been his staunch allies.

As one of several alternatives to his Cap Martin holiday home, the 82,186 sq m 12-bedroom Casa Agricola Solear estate at Arelas de Porches in the Portuguese Algarve is also the home of Mr Mobutu's 14,000-bottle wine cellar. Most prized, according to a local source, are the many bottles of vintage port, acquired to satisfy the 66-year-old Mr Mobutu's preference for drinking wine of his own age. Bought on behalf of Mr Mobutu in 1985, but registered under the name of a limited company whose president is Mr Jaime de Cunha Viana, it is cur-

rently valued at Esc400m (\$2.3m).

Mr Viana is an Oporto-based businessman who was the chief representative of the sizeable Portuguese community in Zaire, and is recognised as Mr Mobutu's representative in Portugal.

Mr Mobutu's Spanish interests include a luxury villa and hotels in Marbella, and a luxury home in the Madrid suburb of Las Lomas at Boadilla del Monte valued at Pta200m (\$1.38m) when it was bought in 1983 in the name of his sister-in-law.

Meanwhile his bank accounts remain hidden from view. The only attempt by western governments to identify these accounts was made in 1981 when the US, France, and Belgium examined holdings in their own countries. France and the US abandoned plans to freeze Mr Mobutu's assets on the grounds they amounted to very little in their countries, while Belgium claimed it would have lacked sufficient legal instruments if it had pursued the seizure of assets.

Among the banks identified as having dealt with Mr Mobutu and his financial front-men in the Blumenthal report in 1982 were Banque Bruxelles Lambert, Paribas, Crédit Commercial, Banque Indo-Suez, Midland Bank and Union Bank of Switzerland.

All banks invoked banking rules of client confidentiality when asked about alleged relationships with Mr Mobutu. Only Midland was prepared to go further: "We have no record of an account being opened on behalf of Mr Mobutu. We have an account with a correspondent bank in Zaire which has been dormant for over a year."

Mr Mobutu was named last week in an internal Belgian government report, written by Mr Hendrik van Dijk, deputy head of mission at the Belgian embassy in Luxembourg, citing him among heads of state using accounts in Luxembourg to launder "fantastic" sums of money. Mr Mobutu is named alongside Libya's Muammar Gaddafi, Iraq's Saddam Hussein and the late Emperor of the Central African Republic, Jean-Bedel

Bokassa, as holding accounts with Luxembourg-based banks.

One senior Swiss banker said it would be "an enormous surprise" if Mr Mobutu was found to have any sizeable sums still invested in Swiss banks. "If he had any sense he would have shifted the bulk of his money out of Switzerland a long time ago to avoid the fate which befell the heirs of ex-President Ferdinand Marcos of the Philippines, whose Swiss bank accounts have been blocked for more than a decade," he said.

Last month Switzerland's Federal Banking Commission asked 12 leading Swiss banks whether they held accounts in the name of Mr Mobutu. All replied they did not, but close aides of Mr Mobutu have confirmed to the FT that the bulk of his liquid assets remains in Swiss banks.

Mr Jean Ziegler, a Swiss Socialist MP and long-time critic of Swiss banking secrecy, does not accept that most of Mr Mobutu's money has already been spirited out of Switzerland.

"We are not talking about \$1m in a Swiss bank account, but a whole overseas financial empire which has been built up over more than 30 years," said Mr Ziegler, who thinks "several billion dollars" of Mr Mobutu's money have been invested in Switzerland.

Nevertheless, he thinks the longer the Swiss government delays freezing Mr Mobutu's assets, the greater the risk they will disappear. "If this happens then Switzerland will be guilty of being an accomplice to embezzlement on a grand scale," said Mr Ziegler. The Swiss government had acted "very foolishly" and its attitude towards Mobutu mirrored the "typical Swiss hypocrisy" which has marked Swiss relations with Zaire for years. Last November the Swiss government refused to renew Mr Mobutu's entry visa. It was not always so.

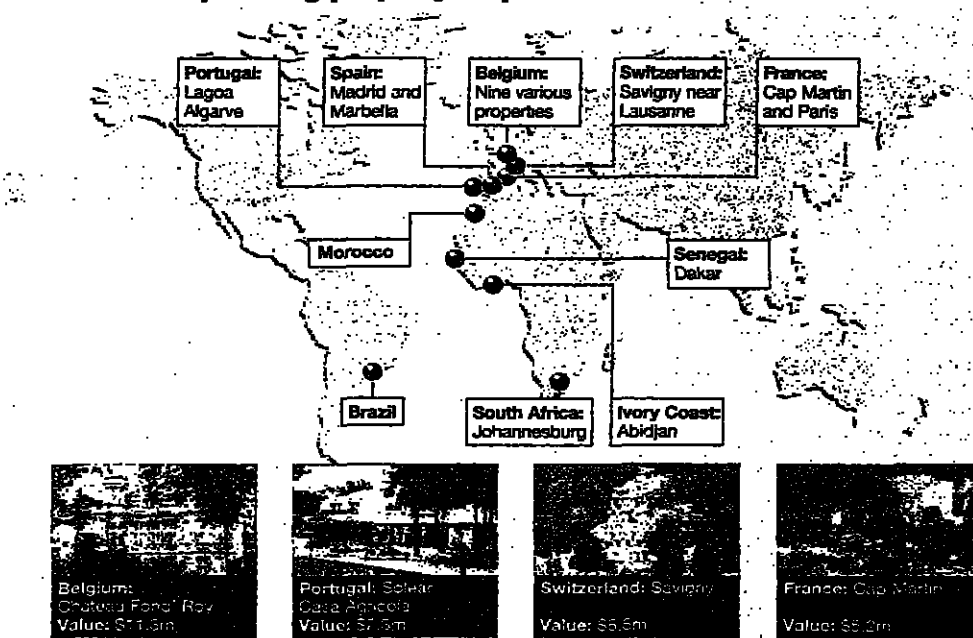
The Swiss politician who had the closest ties with Mr Mobutu was Nello Celio, a member of the Radical Democrat party and state president in 1972. As well as being on the board of Credit Suisse, Celio, who died in 1985, was a former chairman of Alusuisse, Switzerland's only aluminium company. He was closely involved in Alusuisse's plans to set up an aluminium smelter in Zaire and was also president of Eurotrust, a big investment fund involved with Zaire.

Now, as the cancer-stricken president tries to cling to power for a few more days, uncertainty surrounds who will inherit his fortune. There will be no shortage of family members, aides and allies desperate to grasp a share of what is left. But the people of Zaire his clique are leaving behind will also be seeking to recover what has been stolen from them.

The question is whether the countries now harbouring his assets will be prepared to lift the veil of secrecy behind which they and Mr Mobutu have hidden for so many years.

Additional reporting: Michael Holman in London, Neil Buckley in Brussels, William Hall in Zurich and Peter Wise in Lisbon

President's sprawling property empire



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France to keep US meat ban

for the arbitrator's plan.

Mr Geissler's proposal to cut sick pay in the first three weeks of illness to 80 per cent from 100 per cent of previous income has emerged as the most contentious element in his arbitration package. It has reawakened memories of last year's struggle, when unions fought the government over legislation to cut sick pay.

Other cuts proposed by Mr Geissler include a reduction in the "13th month" payment to west German building workers from 100 per cent to 77 per cent of a normal month's pay.

Mr Vasseur called the US complaint "entirely unfriendly", saying he saw no reason "to try to impose meat on French consumers which they do not want". He said: "My preferred solution, the solution preferred by France, would be to refuse imports of US meat treated with hormones." He added: "I say quite clearly, France is entirely prepared to pay penalties if that is what is needed to prevent hormone-treated American meat from gaining entry to our territory."

parties of the left. An accompanying analysis suggested this would mean a comfortable centre-right majority - 328-358 seats for the RPR, UDF and 193-227 for the left.

But more than a quarter of respondents indicated they might still change their minds. Polls published last week suggested the left had drawn level with the ruling coalition, which appeared burdened by Mr Juppé's persistent unpopularity.

The elections will be held in two rounds, on May 25 and June 1.

The timing of the latest poll, conducted on May 9, suggested last week's intervention by President Jacques Chirac might have

helped the centre-right's cause. The French president spent yesterday sharing centre-stage in Cannes with the Spice Girls, the UK pop group, in advance of a state visit to China later this week.

de Prado, whom he criticised for being "acerbic" and committing "excesses", to another post.

The controversy has brought heavy pressure on the justice minister, Ms Margarita Mariscal de Gante, whose performance has been attacked by the opposition leader, Mr Felipe González, as being "of an astounding

of the problem lies in the institution of the National Court itself. Set up after the Franco era, initially as a place where terrorists could be tried, it filled a gap left by the abolition of the notorious Public Order Tribunal — where Ms Mariscal's father, incidentally, was a judge.

Already last December, a

thought the goings-on at the National Court were leading to a loss of public confidence in justice. That now seems

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**“FINDING ARAMARK WAS
GENIUS. WHEN WE HAD SALES OF \$150 MILLION, 6 MONTHS FASTER THAN WE PLANNED, IT WAS
LIKE STRIKING OIL.”**

GENIUS. WHEN WE HAD SALES OF \$150 MILLION, 6 MONTHS FASTER THAN WE PLANNED, IT WAS

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NEWS: ASIA-PACIFIC

Job worries in Japanese finance

By Gillian Tett in Tokyo

Japanese securities companies have slashed their staff numbers by over a quarter during the past five years, as competition has eroded their business, a survey has shown.

The numbers employed in the sector fell almost 30 per cent in the five years to September 1996, with some medium-sized companies such as Cosmo, Daiichi and Tokai seeing cuts of over 40 per cent, according to a survey by Nikkei newspaper.

The reductions are a striking indication of the financial pressure that has dogged Japan's securities industry since the collapse of the 1990s bubble - not least because Japanese institutions have traditionally been reluctant openly to shed staff.

However, Japanese banks, by contrast, barely reduced their staff at all in the period - in spite of the fact that the banking sector fell into a

large loss last year as a result of widespread loan difficulties, and is set to face further severe pressures this year ahead of the planned financial deregulation, or Big Bang.

Consequently, the discrepancy is likely to fuel expectations that financial deregulation and growing competition could either lead to new job losses among Japan's giant banking industry, or leave it far less competitive than foreign rivals.

And in recent weeks the ailing Nippon Credit Bank has become one of the first large Japanese banks to indicate seriously that it hopes to cut staff numbers - by about 30 per cent - as part of its recently announced restructuring plans.

Mr Naotaka Saeki, newly appointed head of Japan's banking federation and president of Sanwa Bank, insisted last week there was

little immediate likelihood of mass staff reductions among the banks

yet. "I do not think that firing lots of people is inevitable," he said, adding that that big banks would be able to survive the Big Bang reforms by expanding into new areas of business.

In particular, he suggested, the planned removal of barriers between securities businesses and banking businesses should ensure that banks could find new profit sources by moving into the securities industry.

Nevertheless, he added that this process would force many Japanese banks to become far more specialised - and admitted that Big Bang would also usher in more foreign competition. "Big Bang means the total opening up of the market... The situation is that foreigners will come to Tokyo," said Mr Saeki, who added that it was "a possibility" that Japanese financial companies might also be bought by foreigners.

Dateline Tokyo: Neighbourhood police, Page 7



Saeki: no mass sackings in view

India 'keen' to boost South Asia trade ties

By Mark Nicholson in New Delhi

India is "very keen to take an initiative" to accelerate moves towards creating a full free-trade zone among the seven nations of South Asia within the next three years, Mr I.K. Gujral, India's

prime minister, said on the eve of a two-day summit of the South Asian Association of Regional Co-operation (Saarc).

Mr Gujral, in an interview, indicated that India was willing to offer its six neighbours greater trade concessions at the meeting in Male, capital of the Maldives.

Mr Gujral, who retained India's foreign ministry portfolio after taking over as India's prime minister last month, said he hoped to build on a recent "very big qualitative change" in regional relations, most notably a tentative recent rapprochement between India and Pakistan, its chief regional rival.

Mr Gujral will today meet Mr Nawaz Sharif, his Pakistani counterpart, in the first prime ministerial meeting for four years between the two countries, which have fought three wars since independence in 1947. Talks between the two countries were revived at the level of officials only last month after a chilly three-year hiatus.

Officials from both sides

have carefully played down the prospects of any tangible results from today's meeting, beyond a likely commitment to hold subsequent discussions.

"Because of the deadlock the relations between Pakistan and India will have to be a process, it cannot be an event," said Mr Gujral, adding: "It is itself a good signal that we are willing to talk."

Frosty relations between India and Pakistan, chiefly impeded by bitter political differences over the troubled state of Jammu and Kashmir, have so far hindered any meaningful process of trade liberalisation within Saarc.

Trade among the seven nations (India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan and the Maldives) today accounts for just 3 per cent of their total trade volumes and the states have so far made only slow and grudging progress towards implementing a South Asian Preferential Tariff Agreement, the intended precursor to a free-trade zone.

However, Mr Gujral last year revived prospects for the 12-year-old grouping by recasting India's foreign policy under what has now become known as the "Gujral doctrine": that India, as the region's dominant power, should be willing to grant its neighbours conces-

sions without expecting reciprocity.

The approach helped lead India last year to conclude an historic water-sharing agreement with Bangladesh, a similar accord with Nepal and a recent unilateral move to increase trade concessions for Sri Lanka.

Mr Gujral has also courted better relations with Pakistan, and has so far found a sympathetic response from Mr Sharif, whose landslide election victory earlier this year has made him one of the country's most powerful prime ministers.

However, progress in talks between Delhi and Islamabad will hinge on whether the two sides can find a means of dealing with the Kashmir issue.

Pakistan insists it cannot discuss other bilateral issues unless "meaningful progress" is made over Kashmir - insisting India abide by a series of UN resolutions which call, among other things, for a plebiscite in the Indian-controlled territory.

India, which accuses Pakistan of backing an insurgency in Kashmir which has cost 20,000 lives since 1989, firmly resists such a move and argues instead that the two sides should rather embark on talks in other areas, including trade, visas and confidence-building measures.

HK Democrats plan legal challenge

By John Riddling in Hong Kong

Hong Kong's Democratic party plans to take legal action against the territory's China-backed legislature after it passed its first law on Saturday, a senior party official said yesterday. "It is definitely our will to proceed with a legal challenge, and we are examining the technicalities," said Mr Anthony Cheung, vice-chairman.

The threat from the Democrats raises the prospect of a legal showdown over the provisional legislature

before the transfer of sovereignty on July 1. Mr Cheung said the party did not recognise the provisional legislature, which will replace the existing Legislative Council at the handover, and the passage of a law breached Beijing's promise that there would not be parallel legislatures during the transition.

Saturday's session completed the third reading of a bill on public holidays. According to the provisional legislature, which was selected by a 400-member committee, laws must be read and passed three times

and then undergo a confirmation process immediately after the handover.

A challenge by the Democrats on the public holidays bill could mark the first of a series of legal confrontations. In this case, the challenge may be aimed at the timing of the legislation rather than the provisional legislature itself. "It is not the nature of the law that is the problem, it is the fact that the provisional legislature is acting before July," said Mr Cheung.

Ms Rita Fan, president of the provisional legislature,

dismissed the challenge from the Democrats, arguing that the legislature was empowered to pass legislation to be effective on July 1. "All along we have been advised by our legal adviser," said Ms Fan. "We've been assured all we have done is within the law."

The Democrats have signalled they will also launch a more fundamental challenge to the provisional legislature, which they argue has no foundation in the Basic Law, the constitution for post-handover Hong Kong. A possible trigger for

this challenge are laws on civil liberties, expected to be announced this week.

Initial proposals for the laws included a tightening of police controls over demonstrations and stronger regulations concerning the registration and funding of political parties. Although the government in waiting has signalled it might make concessions on areas of the legislation, the Democrats have indicated they will challenge the laws in the courts after the handover.

In the mammoth shadow, Page 15

Eerie silence before the Australian budget

The first budget presented by Australia's new conservative federal government last August prompted protests by public servants, students and Aboriginal groups.

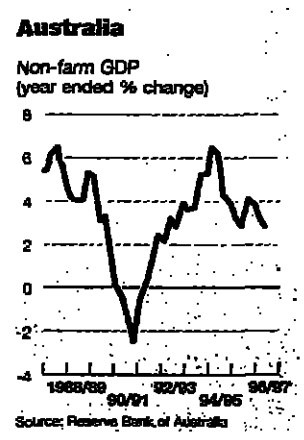
The second, to be delivered tomorrow, looks like being a more harmonious affair. Mr Peter Costello, the federal treasurer, has indicated the budgetary savings being sought are "nowhere near" the \$8bn (\$9.6bn) worth announced last August for the 1996-97 and 1997-98 financial years.

The last budget, was preceded by a spate of leaks, as ministers tried to soften the impending blow. This time, aside from a few weekend stories relating to child-care allowances, the silence has been almost eerie.

This muted backdrop does not reflect a great shift in the economy itself. Australia's growth rate stalled after the March federal election last year. By late 1996, growth was little more than 2 per cent on an annualised basis.

In recent months, there have been signs of a pick-up, spurred by three interest rate cuts in the latter half of 1996. But business leaders and economists are united in describing the improvement as "patchy". A business survey published today by National Australia Bank, the country's largest commercial bank, suggests the underlying pace of annual growth is only 2.53 per cent.

Nevertheless, most private sector economists think matters will improve further in the coming months and many believe growth could reach 4 per cent by late-1997.



The Reserve Bank seems to agree. "The lower interest rates now in place should be supportive of interest-sensitive areas of activity... Other factors favourable to growth at present include the strong US economy, moderately rising commodity prices and a historically good level of business profitability in many industries," it said last week.

The budget numbers themselves, meanwhile, will benefit from last year's rigour. Most analysts expect the "underlying" deficit (before privatisation proceeds) in 1996-97 to be around \$8bn-\$8.5bn, or about 1.7 per cent of gross domestic product. This would be significantly higher than the \$5.6bn forecast in August, largely because of a shortfall in company tax receipts already advised by the treasurer.

But, as the August budget measures feed through and higher growth kicks in, analysts say the "underlying" deficit should still dip to around \$5bn in 1997-98 and perhaps \$4.5bn in 1998-99.

Asian Development Bank meets in Fukuoka, Japan. Peter Montagnon reports

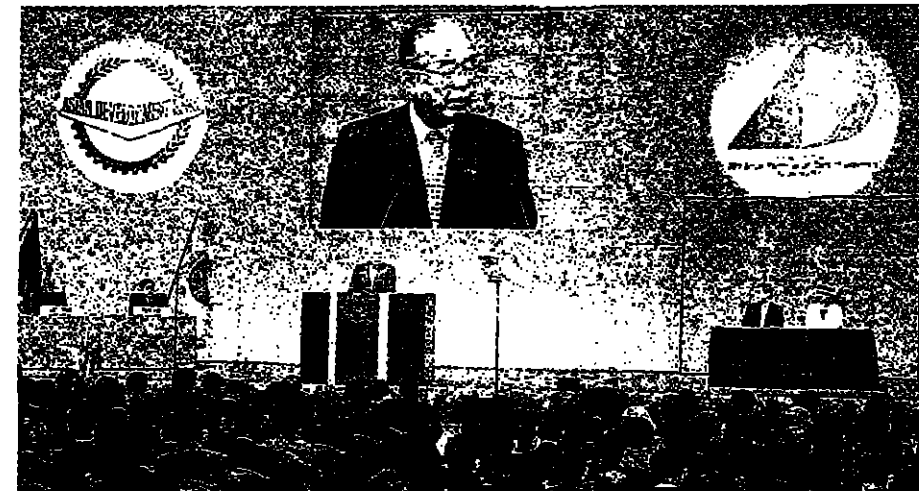
ADB targets private project finance

The Asian Development Bank has launched a concerted campaign to finance more projects jointly with private capital markets with a target of tripling such outside contributions to \$1bn this year.

Mr Richard Wada, its senior official in charge of co-financing, said the bank wanted to increase the leverage on its own resources, especially in private sector projects where its lending is restricted by charter.

Where co-financing has previously brought in an extra 50 cents for each dollar lent by the bank, the ratio should now rise to 70 cents. Most ADB co-financing has hitherto involved other official lenders such as aid and export credit agencies. Its new drive reflects a worldwide push by governments to encourage private sector infrastructure development in the developing world.

Among ADB projects for which private finance will be sought in coming months is a \$750m coal-fired project in China's Fujian province sponsored by the Lippo group of Indonesia and Bechtel Enterprises of the US, Mr Wada said.



Hiroshi Mitsuzuka, Japan's finance minister, addressing the ADB meeting yesterday

Details are also being finalised on a \$700m power transmission project in Pakistan in which the National Grid and Midlands Electricity, both of the UK, will be the main investors; Britain's Export Credits Guarantee Department will provide \$250m of guarantees.

A \$373m cement works project in Vietnam, sponsored by Vietnam National Cement, Nihon Cement and Mitsubishi Materials, is on the list, as well as a \$630m

power project near Calcutta in which BHP of Australia and AIG, the US insurance company, are sponsors.

The ADB would invest some capital and a loan large enough to attract support from international banks and bond investors in these projects.

It has also increased its participation in venture capital funds for Asia, mainly to provide equity for infrastructure development. Late last year it was involved in the

launch of such a fund by Calpers, the Californian state pension fund.

Now it is setting up a fund with Prudential, the US insurance company, to provide so-called mezzanine capital, or subordinated debt, which will lower the risk to outside lenders in private sector infrastructure projects. Between them the two organisations are putting up \$100m, though they hope to attract other contributions for a total of \$500m.

Mr Wada said ADB private market co-financing would most likely take the form of bank lending, as this was currently more attractive than bond finance. Private lenders could subscribe to a loan on the same preferred status as the ADB.

A second option is a guarantee to enable the maturity of the loan to be extended. A third is a separate guarantee to protect lenders against specific political risks such as unplanned tariff changes and expropriation.

The mechanisms are like those used by the International Finance Corporation, private sector financing arm of the World Bank, which is also involved in the Chinese and Vietnamese projects.

The ADB's initiative could increase the financing available for private sector projects, but the bank has calculated that, at best, only 20 per cent of Asia's huge infrastructure needs can be financed by the private sector. "Even if we go full blast it'll only make a small dent in terms of total requirements," Mr Wada said.

Editorial comment, Page 15; Fukuoka Survey, Separate Section

Mekong project comes under fire

The Asian Development Bank's flagship plan to develop the greater Mekong region of south-east Asia has come under sharp criticism from environmental lobbies which accuse it of being biased towards hydropower.

Under the Mekong plan, which is supposed to raise

growth and living standards in a wide area encompassing Laos, Cambodia, Burma, Thailand, Vietnam and China's Yunnan province, the ADB aims to help orchestrate the provision of part of the \$40bn in infrastructure finance it says will be needed over the next decade.

But environmental groups said it had relied too heavily on a feasibility study from Norconsult, a Norwegian consultancy group which has close links to hydropower manufacturers.

The ADB, which has put \$150m into Mekong hydro-

power projects since 1984, was "unquestioningly" implementing Norconsult's recommendations, said Ms Aviva Imhof from the California-based International Rivers network. "One of our serious concerns is the conflict of interest in the employment of a hydro-power company."

The project would affect fisheries, agriculture, water-flow and agriculture, which would have a substantial impact on the livelihood of local people who had not been properly consulted. The aim was to generate power

for export to Thailand which could satisfy its needs through greater efficiency and could use natural gas to generate power with less ecological damage, said Ms Imhof, who was joined by lobby groups from Japan and Cambodia in her protest.

"Laos is a one-party state," added Mr Satoru Matsumoto, a Japanese lobbyist. "It's extremely dangerous for local residents to say No to a dam that the government has decided to go ahead with."

Mr Bindu Lohani, ADB's head of environmental

issues, denied the Mekong plan had an undue overall emphasis on hydropower, which was a focus only in some of the countries involved. The bank looked carefully at environmental effects of dams, he said, but he acknowledged it could do more to persuade governments to consult people affected by the projects.

Pooling energy resources on a regional basis is more efficient and less damaging to the environment than country-based, self-sufficiency approaches, the bank said in a statement.

Report urges better government

Asia's sometimes authoritarian governments need to become more democratic if the region is to secure continuing growth and quality of life for its citizens during the next 30 years, according to a report published by the Asian Development Bank at its annual meeting in Japan.

"Asia's increasingly complex economies cannot be managed from the centre alone, and their increasingly pluralist societies will not be content with top-down government," the bank's Report on Emerging Asia said.

The report does not formally represent the views of the bank itself, but rather of the outside team of economists called in to write it. Yet officials said that the sentiments were in line with the bank's view that good government was a pre-requisite for sustained development.

Setting out the conditions under which Asia could maintain its high growth record, the report said another challenge facing Asian governments over coming decades was to tread a delicate line between fiscal responsibility and demands for better health, education, welfare and for a better quality of life.

This could only be achieved by a new relationship between government and the private sector. "Mutual trust and dialogue must replace suspicion and distrust. Greater openness and disclosure is also needed to ensure that the interests of regulated enterprises do not take precedence over those of the communities they are

intended to serve," the report said.

"Asia has to adapt to a twin-track approach, the first track stressing growth and globalisation and the second stressing human development and civil rights," Mr P. Chidambaram, India's finance minister, told a seminar to mark the report's launch.

The report is generally optimistic about Asia's economic prospects, though it says growth may taper off in the newly industrialised economies of east Asia as their populations age. By contrast south Asia, which has lagged hitherto, could see growth accelerate given deregulation which would make its economies more competitive and the advantage of a dynamic young population.

But this assumes governments can rise to the challenges raised by a more affluent and demanding population, particularly in the environment. "The point may not be too far off when Asia's polluted environment will act as a brake on its growth," it said. Of the world's 15 most polluted cities, 13 are in Asia.

Government monopolies over drinking water, sewerage and clean air cannot generate the right response, the report said. Instead it called for the private sector to provide the necessary environmental infrastructure and contribute to the conservation and management of natural resources. The role of governments in setting environmental priorities and enforcing them should be strengthened.

CONTRACTS & TENDERS

REPUBLIC OF TAJIKISTAN

MINISTRY OF COMMUNICATIONS

Request for Expression of Interest for the Establishment of a new National Telephone Operator in the Republic of Tajikistan

The Ministry of Communications of the Republic of Tajikistan, assisted by the European Bank for Reconstruction and Development, is organising an open international competitive tender to select a joint venture partner for TajikTelecom, the current national operator, to establish a new national telephone operator ("the New Operator") which is expected to:

- receive a license to provide local, national and international fixed services for a minimum of twenty years and together with TajikTelecom exclusively provide national and international fixed services for a minimum of ten years;
- conduct independent international settlements;
- not bear responsibility for the operation and maintenance of the existing network;
- co-operate with TajikTelecom to differentiate the services provided by TajikTelecom and the New Operator to prevent direct competition; and
- commit to total capital expenditures of \$65-\$85 million during the first five years of operation and construct a national digital overlay network.

Bidding consortia must be led by companies with substantial communications operating experience. Equipment suppliers and financial investors are strongly encouraged to express interest and participate in bidding consortia.

The deadline for submission of expressions of interest has been extended to May 26, 1997. The deadline for tender registration and submission of consortium details is June 20, 1997. A presentation of the project will be given on June 25, 1997 in the Kempinski Hotel in Berlin, Germany, which interested parties are encouraged to attend.

The Ministry of Communications has selected as its advisors a consortium led by Barings Group. A Pre-tender Offering Memorandum (including tender registration requirements) is available upon written expression of interest to the persons listed below.

Mr Ian Zilberkewitz, Barings Group (Europe), Telecom Finance Practice, 19-25 Abchurch Lane, London EC4N 3DF, U.K. Tel: 44 1753 333 1451 Fax: 44 1753 333 1451

Ms Stokufia Ibrakova, International Relations Dept., Ministry of Communications, 57 Rudaki Avenue, Dushanbe, Tajikistan Tel: 7 372 210010 Fax: 7 372 210277

PUBLIC NOTICES

SCOTTISH EQUITABLE POLICYHOLDERS TRUST LIMITED

NOTICE IS HEREBY GIVEN that the fourth ANNUAL GENERAL MEETING of Qualifying Policyholders of Scottish Equitable Policyholders Trust Limited will be held at the offices of Scottish Equitable plc, Edinburgh Park, Edinburgh EH12 9SE on Thursday 29 May 1997 at 2.15 pm for the following purposes:

1. To consider the Report on the activities of the Company for the year ended 31 December 1996.
2. To approve the aggregate ordinary remuneration to be made available to the Directors of the Company.
3. To reappoint Directors of the Company retiring by rotation at the Meeting, namely:
 - (a) Mr C.F. Skelch
 - (b) The Rt Hon Lord Younger of Prestwick.

Any Qualifying Policyholder who is entitled to attend and vote is entitled to appoint another person (who need not be a Qualifying Policyholder) as his proxy to attend and vote instead of him. A proxy is entitled to vote but is not entitled to speak except on demand or on a poll in circumstances where a poll is demanded. The proxy forms, which can be obtained from the Company Secretary (at the following address), must be deposited at the Registered Office at Edinburgh Park, Edinburgh EH12 9SE before 2.15 pm on 27 May 1997.

Every Qualifying Policyholder whose policy, as at the commencement of the Meeting, is in force, and has been at least one year in force, is entitled to attend and vote at the Meeting.

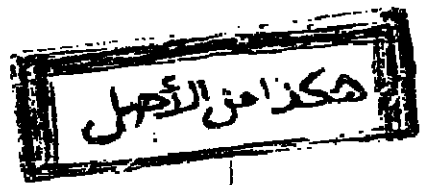
"Qualifying Policyholders" for the purposes of this Notice has the meaning set out in the trust deed executed by the Company on 31 December 1993 and extends to:

- (a) any person who was a member of Scottish Equitable Life Assurance Society and whose policy has been transferred to Scottish Equitable plc;
- (b) any person who has a with profits policy with Scottish Equitable plc where the policy has been linked to the With Profits Sub-Fund for a continuous period of at least one year as at the commencement of the Meeting.

Any queries in respect of the qualification of policyholders to attend and vote at the Meeting should be addressed to the Company Secretary (at the address specified below).

By Order of the Board
P.H. Grant
Managing Director

Edinburgh Park
Edinburgh EH12 9SE



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S Africa turns to private sector for jails

By Roger Matthews
in Johannesburg

The South African government is set to make its biggest breakthrough in relations with the private sector, since the African National Congress took power three years ago.

Tender documents will be released shortly asking companies to bid for the financing, construction and operation of seven prisons at an estimated cost of over R1.5bn (\$337m).

If the project is successful it is likely to be the first of many, and could allow the government to withdraw completely from financing further construction.

The contracts will put South Africa among the world leaders in privatising prisons, and could be the first of many infrastructure developments in other sectors, especially transport, to attract foreign bidders.

South Africa's prisons were severely overcrowded when the ANC took office and numbers have since been rising by about 10,000 a year.

Escapes are endemic, with an average of over 100 prisoners, from petty thieves to murderers, breaking free each month.

The prison population hit



Group 4 of the UK is likely to be among those bidding to build and run seven new prisons in South Africa

125,000 at the end of December, is now 134,000, and is expected to reach 147,000 by the end of next year.

Current facilities in 253 jails allow for a maximum of 97,000 prisoners, and the

total staff level of 30,000 is 8,000 below requirements.

The rising prison population reflects South Africa's world leadership in several categories of crime, particularly murder, rape and

armed car hijackings. Public anger at the relatively low levels of arrests and convictions is also mounting and has led to calls for a state of emergency.

Mr Sipo Mzimela, the correctional services minister, said the prison building programme anticipated greater police success, and viewed the seven new prisons, with their 10,000 population, as "a drop in the ocean".

In the longer term he was looking for 50,000 more prison spaces at a cost of up to R12bn.

"This is a great opportunity for foreign and local companies because their returns are guaranteed by the government," Mr Mzimela said.

The companies will have to finance, design and operate the new jails, and commit themselves to an agreed programme of health care, hygiene, and rehabilitation. Revenue will come from a fixed daily payment per prisoner.

Mr Goltz Westmann, special adviser to the minister, said the daily per capita cost to the government of keeping prisoners was R68. Companies would also have to train staff, and not poach existing prison officers. "We do not intend to end up competing against ourselves," he said. "We also do not expect

there to be any escapes, and operating companies will be penalised should any occur."

The performance of companies will be monitored by prison inspectors, headed by a judge, and provision made for the suspension of the contract if conditions fall below set standards.

Mr Westmann said every international company involved in the custodial business was interested in the South African project "because it is probably the biggest there is in the world".

Among those likely to bid are Group 4 and Premier Prison Services from the UK, Wackenhut from the US, and companies from Australia, Canada and Taiwan. They will be expected to form partnerships with South African companies. The first contract could be awarded at the end of September, with work starting immediately afterwards.

Mr Mzimela said he had been appalled by conditions in many South African jails. "On my first tour of inspection I was so shocked I ordered several to be closed. I said I did not care where the prisoners went, so long as they were taken out of those jails."

"Soon after that I started talking about getting the private sector involved, because I was convinced we would never have the money to do what was necessary. But it was a new concept, and initially people did not know what I was talking about."

But with 80 per cent of the minister's budget swallowed by salaries, and much of the rest going on other operating expenses, the ideological opposition to what some members of the ANC viewed as privatisation began to evaporate.

"We have had absolutely no problems with the unions on this," said Mr Mzimela. "And people understand that if a serious programme of rehabilitation is to be introduced we must have the space and facilities to carry it out."

He has also demilitarised the prison service. "It was in effect a military department. Afrikaans was the only language used, and its primary purpose was to enforce strict discipline. Prisoners could not ask questions and warders relied on force."

Two of the new prisons would be "super maximum security" with prisoners locked in their cells for 23 hours a day. Mr Mzimela was also investigating the possible purchase of prison ships, and converting disused mining facilities.

INTERNATIONAL NEWS DIGEST

Iran quake toll at 2,400

The death toll from Iran's earthquake rose to nearly 2,400 yesterday, according to reports from the Iranian news agency, IRNA.

The number of injured was 6,000, it said in a report from Mashhad, capital of the quake-stricken north-eastern province of Khorasan. Mr Ali Mohammad Besharati, interior minister, said in Tehran that initial estimates put the extent of destruction in the most heavily damaged cities of Qazvin and Birjan in eastern Iran at IR200bn (\$67m).

A United Nations official flew to the scene to assess damage and to report on aid needed to cope with the aftermath of the earthquake, which registered 7.1 on the Richter scale. Tehran radio said the quake - Iran's worst since 1990 when about 35,000 died - hit 200 villages, destroying some of them totally. *Reuter, Qazvin*

CVRD consortium lays plans

The winning consortium in the first stage in the privatisation of Companhia Vale do Rio Doce (CVRD), the world's largest iron ore miner, meets for the first time today to discuss the composition of CVRD's board of directors and the company's management team.

A 41.7 per cent stake of voting shares was transferred to a consortium led by Companhia Siderurgica Nacional (CSN), the Brazilian steelmaker, at the Rio de Janeiro stock exchange last week after the final injunction suspending the sale of shares in the company was overturned in a Rio de Janeiro court.

The consortium paid R\$3.34bn (US\$3.14bn) for the shares, after outbidding a group co-led by Anglo American of South Africa and Grupo Votorantim of Brazil at an auction last Tuesday. The other members of the winning consortium are NationsBank of the US, Opportunity Asset Management, an investment fund and four Brazilian pension funds. *Geoff Dyer, São Paulo*

Mediterranean nations gather

The World Bank Economic Development Institute today brings together more than 400 policymakers, experts and representatives from private sector and non-governmental organisations from Mediterranean developing nations in a week-long conference in Marrakech to encourage regional discussion of development issues.

The Mediterranean Development Forum, co-sponsored by the Moroccan government, is part of the World Bank's effort to expand its role in the Middle East and North Africa, an area where it has played an important part in promoting economic liberalisation.

The forum will address the challenges of the Euro-Mediterranean partnership agreements signed or being negotiated between the European Union and southern Mediterranean countries and consider ways to attract investment. *Roula Khalaf, London*

Deadlock dismays Israelis

Israelis are dismayed by the deadlocked state of the peace process, according to an opinion poll published yesterday. The poll by Tel Aviv University said 71 per cent of Israeli Jews considered the peace process was temporarily stalled while 22 per cent said it had "ceased altogether". Some 82 per cent were "concerned or very concerned" at the state of the peace process. *Avi Mochlis, Jerusalem*

Cuba sees US hand behind insect plague

Claims of biological warfare against food crops reach UN. Pascal Fletcher reports from Havana

The long and mutually venomous dispute between Cuba and the US has spawned numerous allegations and counter-allegations, some more bizarre and exotic than others, over the last 35 years.

In their latest exchange, Havana has formally accused the US government at the United Nations of carrying out a "biological attack" against the communist-ruled island by releasing a plague of tiny, juice-sucking bugs that are now reportedly ravaging food crops in three Cuban provinces.

Washington last week denied the Cuban charges as "outrageous" and "deliberate disinformation".

Cuba is presenting the incident as another example of a campaign

of hostility and dirty tricks waged against it by the "imperialist" US, a campaign which has included in the past the 1961 Bay of Pigs invasion and assassination plots against President Fidel Castro.

But sceptics suggest the latest accusation could be an attempt by the Cuban government to justify possible summer food shortages resulting from an unseasonal drought and struggling farm production.

Cuba's communist rulers have certainly found the US a convenient scapegoat for misfortune in the past. The "Yankee imperialists" have been previously blamed by Havana for crop and animal diseases such as blue mould and swine fever, and even human illnesses such as

haemorrhagic dengue fever.

In a statement published this week, Cuba said a crop duster aircraft used by the US State Department for anti-drugs operations repeatedly released a "white or greyish cloud of unknown substances" while flying 10,000 feet above Cuba last October. The emission was seen by the pilot of a nearby Cuban passenger aircraft.

The Cuban accusation, presented to Mr Kofi Annan, United Nations secretary general, in March said the incident preceded the "strange and suspicious" appearance two months later in Matanzas province, beneath the US aircraft's route, of an insect pest known as *Thrips palmi* Korney. This is present in other Caribbean countries but has

previously been unrecorded in Cuba.

"Cuba has once again been the victim of a biological attack," the Cuban government said, adding that its investigations allowed it to reach this conclusion "with a high degree of certainty". The tiny, millimetre-long insects had affected vegetable crops in three provinces, Havana said.

Not surprisingly, the US version of the October flight differs from the Cuban story. Washington said the US "narcotics crop eradication" aircraft was en route to Colombia and had obtained clearance to fly over Cuba.

The US statement said the crop duster pilot, noting the proximity of the Cuban airliner, "followed prudent and safe aviation

procedures by marking his aircraft's location with smoke" using his aircraft's smoke generator.

Mr Jim Pollard, a UN Food and Agriculture Organisation plant protection expert, visited Cuba in April after Cuba requested FAO help in dealing with the *Thrips* outbreak. He confirmed the presence of the insect pest, which can affect such crops as potatoes, tomatoes and beans.

But Mr Pollard said it was "very difficult" to pinpoint with certainty the origin of new infestations. The *Thrips* pest, originally from Asia, had arrived in the Caribbean 10 years ago and could be found in most of the region, he added. He did not want to comment on the specific Cuban accusation.



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ZURICH RE

NEWS: UK

Road hauliers to be invited to send lorries free of charge when fire-damaged tracks reopen

Eurotunnel plans freight experiment

By Charles Batchelor,
Transport Correspondent

Eurotunnel plans to start an experimental freight shuttle service through the Channel tunnel between England and France for the first time in six months when the fire-damaged south tunnel is re-opened on Wednesday.

Road hauliers will be invited to send their lorries through the tunnel free of charge pending the start of a commercial service in mid-June.

The resumption of freight shuttles depends on the

Anglo-French safety authority approving the use of the open lattice design for truck carriers. The design has been condemned by the UK fire service.

But Eurotunnel is confident that with its own improvements to the shuttle design - which are less radical than those called for by the UK fire service - and new safety procedures unveiled at the beginning of last month, the safety authority will give the go-ahead for services to resume.

Repairs to the damaged

tunnel have been going on since the fire aboard a Calais-Folkestone shuttle on November 18. Limited passenger shuttle services, Eurostar trains and long-distance freight services have been run, but the cost of repairs and lost revenues has been put at just over £200m (£324m).

Passenger numbers have recovered since the fire, though the nearly 144,000 cars carried in April were down on the 154,500 carried in the same month of 1996.

But Eurostar passenger

numbers rose from 405,000 to 496,000 over the year while freight volumes rose from 179,000 tonnes to 242,000 tonnes.

Eurotunnel's proposals for improving safety include stopping trains as soon as a fire is discovered rather than attempting to drive them out, installing water sprinklers and providing smoke hoods for truck drivers and train crews.

There will be more thorough checks of lorries and departing trains, and fire monitoring teams will sit alongside the train control

staff, allowing better co-ordination.

Transponders will be installed on trains to identify their location more closely and the retractable supports used to steady shuttle wagons during loading will be removed.

Indications that a support had been accidentally lowered led to the burning train being halted in the tunnel.

The relaunch of freight shuttle services is intended to reassure shareholders and investors ahead of attempts to win their approval for a financial restructuring of the

debt-laden company. Shareholders are due to vote on the restructuring at an extraordinary meeting in July, while the full syndicate of 225 banks will consider the plan before the end of the year.

The restructuring would involve converting about £4m of the company's £2.5m of debt into shares. The banks could end up with between 45.5 per cent and 60.6 per cent of the enlarged equity. However, shareholder groups have threatened to campaign against the deal.

UK NEWS DIGEST

Sinn Féin office risks security

Ministers were under pressure yesterday to seek a change in House of Commons rules after Sinn Féin, the political wing of the Irish Republican Army, made clear it would exploit a loophole in regulations to set up an office in parliament and use its other facilities. The prime minister's office said the allocation of office space to Mr Gerry Adams and Mr Martin McGuinness, who were elected by voters in Northern Ireland, was a matter for the Commons authorities. But government officials acknowledged the political and security implications of giving Sinn Féin unrestricted access to the Houses of Parliament while the IRA continues its terrorist campaign.

Sinn Féin confirmed Mr Adams and Mr McGuinness would not take the oath of allegiance to the Queen as MPs. The guide to parliamentary procedure says an elected representative who refuses to take the oath to the Speaker must not try to enter the Commons chamber. However, the individual is entitled to "all other privileges of a member, but not to his salary". *John Kavanagh*

■ TRADE

Barriers 'impede small exporters'

The majority of small exporters are handicapped by indirect trade barriers, according to a survey by the British Chambers of Commerce. The study of 394 small companies says 54 per cent had encountered some form of trade barrier, ranging from tariffs and local taxes to unwieldy customs procedures and even bribery. The BCC has called on Sir David Simon, the minister for trade and competitiveness in Europe, to help small exporters overcome unfair trade barriers inside and outside the European Union. *Wolfgang Münchau*

■ MILLENNIUM 'BOMB'

Government to issue guidance

The government will today launch a six-volume set of guides designed to help British businesses deal with the Year 2000 computer crisis, the so-called "Millennium bomb" which experts predict will cause chaos because computer systems are not programmed to recognise dates beyond 1999.

The plans are believed to be the first attempt by a government organisation anywhere in the world to provide detailed guidance on the issues. "The Year 2000 crisis presents the biggest challenge likely to face commercial and public sector organisations during the next few years," says the government's Central Computer and Telecommunications Agency. Some estimates suggest that up to 80 per cent of all computers and software may not cope with the date change. *Paul Taylor*

■ LLOYD'S

Investors urge rethink on capital

An influential group representing thousands of individual investors in Lloyd's is urging the insurance market to rethink its plans for substantially raising the levels of capital required to support underwriting. A formal response being drafted by the Association of Lloyd's Members to proposals published last month describes the suggested two-year period for introducing the changes as "wholly unrealistic". *Christopher Adams*

Work-time directive signals radical change

By Andrew Bolger,
Employment Correspondent

Implementation of the European Union working time directive is likely to be the catalyst for a radical overhaul of British working patterns, according to a study by Warwick Business School's industrial relations research unit.

The Department of Trade and Industry said yesterday it was "a bit early" for the government to say how it planned to implement the directive, which was unsuccessfully challenged last year by

the Conservative government at the European Court of Justice.

However, the directive seems certain to be enacted through statutory instruments rather than primary legislation, which would take up time in Labour's crowded first parliamentary programme.

The directive gives all employees - except those in sectors such as transport and the offshore oil industry - the right to refuse to work more than an average 48-hour week, and lays down the length of rest periods and rules for night working. Employees will

also have three weeks' paid annual holiday, rising to four weeks in 1999. The Warwick study, published jointly with Industrial Relations Services, the employment research group, says attention had so far focused on the 48-hour week provision, with an estimated 3.5m employees now working longer.

However, it says the directive could have most immediate impact on annual holidays. "As many as 3m full-time employees enjoy less than the four weeks' annual leave which becomes the standard in 1999, and an additional 2.4m

part-time employees probably enjoy less than the pro-rata equivalent," the study says.

"Large numbers - 1.3m full-time and perhaps as many as 3m part-time employees - also have less than the 15 days (or the pro-rata equivalent) which is the entitlement governments can introduce as a three-year transitional measure."

The study says the directive could be "a blessing in disguise" if it encouraged employers to take the management of working time more seriously - in particular, the

"long-standing problem of long hours in the UK". Rather than being used exceptionally, the study says overtime working is endemic in many organisations, with the main rationale being the maintenance of the regular weekly wage.

The report also says both management and unions need to consider the implications of the encouragement which the directive gives to consultation and negotiation over working time.

Time for change? IRS, 18-20 Highbury Place, London N5 1QP. £90

Concern over growing imports

By Andrew Taylor,
Construction Correspondent

Concern that rising construction demand and a strong pound will lead to increased imports will have been heightened by government figures showing a surge in building material shipments last year.

The import bill for building materials, according to the environment department, rose by almost £400m to £5.39bn, increasing the sector's trade deficit by 8 per cent to £1.55bn.

The deficit, which had narrowed considerably after peaking at £2.84bn in 1993, rose in spite of a fall in the price of timber, which,

including wood products, accounts for 30 per cent of industry imports.

A £275m rise in building material exports to £3.8bn was insufficient to prevent the deficit from increasing. Demand for private sector residential and commercial development has caused concern that the sector could face capacity constraints if activity rose too swiftly.

Construction output is forecast by the industry to rise at about 3 per cent per year until the turn of the century. Demand, it says, will be fuelled by lottery funds, millennium projects, the government's private finance initiative and increased domestic private

sector investment. The government and industry sponsored Construction Procurement Group cautioned earlier this year that plant closures and redundancies had left some suppliers ill-prepared to cope with big increases in demand.

Mr Malcolm Dodds, director of the CPG, said: "The trade deficit in building materials has narrowed considerably over the past decade, mainly as a result of domestic suppliers improving their competitiveness."

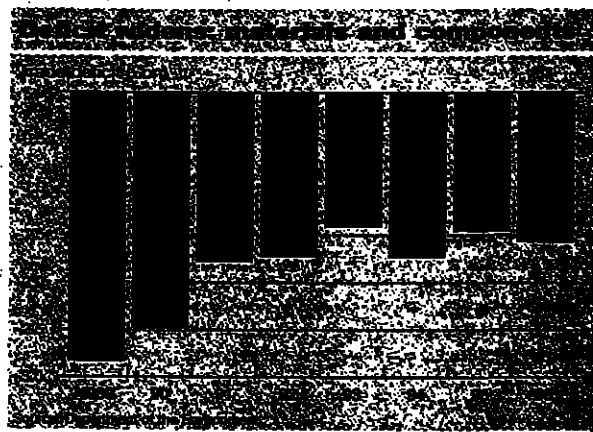
"This improvement could be eroded unless suppliers maintain their competitiveness in an increasingly global construction market. They will not have been

helped by the rise in the value of sterling."

A concern to the CPG will be the rise in imports of higher value manufactured products. The deficit on air conditioning units more than doubled last year to £76.8m while the deficit on central heating boilers increased by almost 32 per cent to £104.2m.

Builders' ironmongery, such as doorknobs, hinges and other small items also had a trade deficit of £211.5m, emphasising the decline in Britain's ability to compete on a range of basic manufactured products.

Nails and screws had a deficit of £41m while the deficit on electric wires rose by



54 per cent to £38m. The deficit on decorative tiles, mostly imported from Italy and Spain, increased by 40 per cent to £159.6m.

A big improvement occurred in structural steel which last year generated a

trade surplus of £234.9m, compared with a deficit of £27m in 1996.

Other trade surpluses last year included wall paper, £179.4m; paint and varnish, £294.5m; and ceramic and plastic sanitaryware, £55.2m.

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مركز التقييم

Cracks appear in the koban

DATELINE

Tokyo: The neighbourhood police have been slow to adapt to rising crime in one of the world's safest cities, writes William Dawkins

The koban system has been one of the two foundations of Japanese policing for centuries, having begun life in the 17th century street sentry posts, intended to protect locals from sword-wielding Samurai.

220,000 policemen work in a koban. On the surface, their record looks enviable. In 1994, according to the most recent national police agency annual report, Japan had only two burglaries per 100,000 people, as against 238 in the US, 116 in the UK and 71 in Germany.

Contributing to the low crime rate has been the second foundation of Japanese policing: the omawari-san's bosses at police headquarters.

Community policemen are helped in their benevolent street peacekeeping mission by the public's knowledge that anyone who does happen to be foolish enough to put a foot wrong can expect tough treatment.

Suspects have few civil rights. Legally, the police can detain a suspected wrongdoer for up to 23 days without charge. One Tokyo magazine last year carried an

account by a foreign stockbroker of how he was locked up for two weeks after losing his temper one night with a taxi driver who refused to pick him up, and denting the vehicle with his fist.

Once inside the station, interrogations are not recorded. According to one legal academic, just over 90 per cent of prosecutions are made on the basis of confessions signed in a police cell. No wonder then that the national police agency reports that on average just under 90 per cent of reported crimes are "cleared" in the sense that a culprit is identified.

Sometimes, a suitably humble and apologetic presumed culprit will be let off with a lecture. If not, those who get to court might as well plead guilty.

Japan's judges are loath to cross swords with state prosecutors. Trials can take a long time

- up to 10 years - because of an overcrowded and slow moving court system, but the results are rarely in doubt. Close to 100 per cent of those charged by the public prosecutor are convicted, according to the justice ministry.

Like it or not, this mixture of friendly community policing with tough treatment of wrongdoers has, for most of the time, worked well.

And yet disturbing flaws have emerged in recent years. A look at recent trends, supported by one or two worrying anecdotes, shows Japan's crime deterrence record is weakening. The number of offences reported peaked at a post-second world war high of 1.8m in 1993, and declined only slightly to 1.78m in 1994, 9 per cent above the level in 1990. There were 1,279 murders in 1994, up 3.3 per cent over the previous four years, and 1.6m thefts, up 8

per cent. Embarrassingly, Tokyo metropolitan police have yet to catch the person who shot and nearly killed their own senior officer two years ago.

Before then, the metropolitan force was widely criticised for having failed to move against Aum Shinrikyo, the mystical cult which launched a poison gas attack on the Tokyo subway, despite the fact that Aum's sinister doings were well known.

At my own local level, Nishiazabu omawari-san has failed to catch a child molester who has been active for the past five years - despite the fact that the police have been supplied with a photograph by an aggrieved parent and showered with protests by the children's school.

Tokyo is still one of the world's safest cities. But what has changed, perhaps as a consequence of a long economic slowdown and rise in unemployment, is that safety can no longer be guaranteed. The police force, on the evidence of its own data, has not yet adapted to that fact.

FT GUIDE TO:

AIRLINE ALLIANCES

I booked a flight with Lufthansa recently and ended up flying with United Airlines. Is this a common occurrence?

Yes, and it will become even more common. Lufthansa and United have an alliance. This means they co-operate closely and encourage their passengers to travel on each other's flights. If you want to fly to a destination Lufthansa does not serve, it might suggest you fly there with United instead.

On Wednesday, Lufthansa, United, Scandinavian Airlines System (SAS), Air Canada and Thai Airways will announce a worldwide alliance. The five are expected to reveal extensive co-operation and a common logo.

Are other airlines doing the same?

Yes, there are dozens of airline alliances. KLM of the Netherlands has an alliance with Northwest of the US. Delta Air Lines of the US has alliances with Swissair, Austrian Airlines and Sabena of Belgium. British Airways has an alliance with Qantas. BA and American Airlines want to link up, creating one of the biggest alliances of all.

Is this what is known as code-sharing?

Code-sharing is when an airline puts its two-letter code on another carrier's flight and sells tickets on it. Many airlines have such arrangements. The alliances involving United, Delta and Northwest do share codes, but they go even further. They have anti-trust immunity from the US authorities which allows them to operate as if they were one airline.

Why do airlines want these alliances?

It is difficult to make money in the airline business. The cost of running aircraft is high and passengers constantly demand lower fares. Regulation in the US and Europe has increased competition. The world's airlines saw total profits from their international scheduled services fall from \$5.2bn (\$3.2bn) in 1995 to \$4bn last year - less than 3 per cent of their revenues.

By joining forces, airlines hope to cut costs through joint purchasing of supplies and perhaps even aircraft. They also hope to persuade passengers making connecting flights to move from one partner's aircraft to a flight operated by an ally, instead of travelling with a rival.

Why don't these airlines just merge?

That would happen in almost any other industry. But the US, the European Union and most other countries have rules preventing foreigners from buying majority stakes in their airlines.

BA and American announced their alliance nearly a year ago. Why is it taking so long?

It has run into strong opposition from other airlines which say BA and American will dominate traffic between the US and the UK, the world's busiest international routes. Regulators in Washington and Brussels are examining how many take-off and landing slots the two airlines should give up at London's Heathrow airport if their alliance is to go ahead. BA is prepared to cede some slots but insists it be allowed to sell them. Rival US airlines say they should have the slots for nothing. The European Commission supports the rivals: it says selling slots is illegal.

If the cost of this alliance proves too high, will BA walk away from it?

BA says it will. Some competitors are less sure. They believe the alliance will be so advantageous that BA and American will pay almost any price to secure it.

What alternatives do BA and American have?

They are both powerful airlines which would not go long without finding partners. One potential partner for BA might be Delta. The US airline does not have a UK partner as its alliance with Richard Branson's Virgin Atlantic has just ended.

Are these alliances good for consumers?

It depends who you talk to. The airlines say they are good for passengers because alliances provide a wider choice of destinations. They also co-ordinate their flight schedules and often operate from the same airport terminals, making life easier for passengers changing flights.

But Robert Grandall, chairman of American Airlines, claims the alliances are a fraud on consumers, who buy tickets on one airline and end up flying on another.

However, he also says he has no choice in forming an alliance with BA because everyone else is forming them and his airline cannot afford to be left out.

Should airlines tell you when you book a ticket that you might be flying with one of their alliance partners instead?

The airlines say their staff are under strict instructions to tell customers that they will be flying on an alliance partner's aircraft. But judging from the letters and telephone calls the FT receives from its readers, airline staff sometimes forget.

Michael Skapinker

The Monday Profile: Brian Souter, Stagecoach

Innovator at the wheel

Brian Souter has been through a difficult three months. Running a bus company is not for the faint-hearted at the best of times and he is used to often robust criticism from his rivals and from the competition authorities.

But the brickbats which have been hurled in recent times have come from his customers, commuters on the South West Trains franchise, run by Souter's fast-expanding transport conglomerate, Stagecoach. They have suffered cancellations and delays because of a bungled redundancy scheme for train drivers - and they wrote in their hundreds to complain.

"We have always been associated with a good product," says the chairman and co-founder of a group which has been a star of the UK bus industry and which is now moving rapidly into continental Europe.

"But the last few weeks have been like swallowing poison. You are only as good as your last trick and our last trick was not very clever."

Faced with the prospect of a £1m fine if it failed to meet its performance targets in April - on top of a £900,000 penalty already paid for underperformance in February and March - SWT concentrated its efforts on getting services right. It heard from the government's franchising director, on Thursday that it had avoided the fine.

But the problems with South West Trains, which covers south-west London and longer routes to Exeter, Portsmouth and Southampton, have dented Souter's reputation for efficient management by which he has built up his UK bus empire and his rail interests. They also wiped out much of the stock market premium which Stagecoach enjoyed over companies in its sector.

The cancellations occurred in the run-up to the general election, when the many critics of rail privatisation were looking for signs that it was going wrong. This explanation prompts the



question: should Souter's managers not have been aware of this political dimension and devoted more attention to the detail of what for them was a new industry?

Despite the riches brought by the success of Stagecoach - his 15 per cent share in the company is worth £214m - Souter remains an untypical captain of industry. He appears not to own a suit, turning up tieless to transport select committee hearings with his overnight clothes in a plastic bag.

The son of a bus conductor, Souter, 42, is an evangelical Christian who neither drinks nor

smokes. He worked as a bus conductor to put himself through Strathclyde university before getting a job with accountants Arthur Andersen. Seeking independence, Souter and his older sister, Ann, set up Stagecoach in Perth in 1980.

The company grew rapidly through a series of acquisitions and was floated on the stock exchange in 1993 valued at £134m. It is currently worth just over £148m.

Souter runs the company from a head office in Perth employing just 30 people and delegates decisions to local managers. Some City critics wonder if the group

has not outgrown this devolved approach but Souter says he chooses good managers to run his businesses. "People are always looking to recruit our managers," he claims.

After creating what was at one stage the largest UK bus group, Souter turned to the rail industry. Despite bidding for all 26 passenger train franchises, Stagecoach won only two, though it later made a surprise offer for Fortarbrook, which took it into the rolling stock leasing market.

"He is very early into good situations - bus, continental Europe and rail," says Nigel Davies, an analyst with stockbrokers Panmure Gordon.

Souter remains optimistic about turning round the seemingly inexorable decline of bus use in the UK and is an enthusiastic innovator.

"We have increased passenger numbers over the past three years by holding down fares while our competitors have increased theirs," he says. "We think we understand our market better than other people."

Stagecoach may see little further scope for acquisitions in the UK but it has great ambitions for continental Europe, in both bus and rail. It bought Swesab, Sweden's largest bus company, last September and it also owns a small Portuguese bus group.

In Sweden, Stagecoach last month launched an intercity express coach service which was two-thirds full within days.

"In Portugal we need to get the basics of bus operations right, while in Sweden we need to bring a 'zing' to what is already a professionally managed operation," he explains. "We have to get right the mix of bus and business skills."

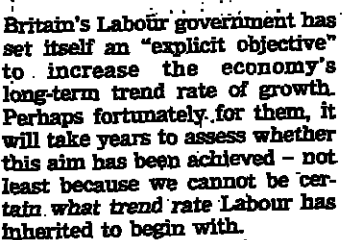
At SWT this mix proved more difficult to attain than Souter and his managers expected. But if their past record is any guide, they will have learned the lesson that expansion into new areas needs to be carefully managed.

Charles Batchelor

Robert Chote • Economics Notebook

A far-reaching judgment

Clarke may have been over-optimistic about the trend growth rate



Britain's Labour government has set itself an "explicit objective" to increase the economy's long-term trend rate of growth. Perhaps fortunately for them, it will take years to assess whether this aim has been achieved - not least because we cannot be certain what trend rate Labour has inherited to begin with.

The objective is laudable nonetheless. Growth in national output ebbs and flows naturally with the economic cycle, but it is the performance that underlies these fluctuations which dictates long-term changes in people's living standards. This in turn depends largely on the structure of the economy rather than the short-term concerns of interest rate and budget policy.

Dismantling the trend from the cycle - let alone the statistical noise which is superimposed on them both - is no easy task. But policymakers need to reach some sort of judgment about the size of the trend growth rate. Otherwise it is impossible to assess how the amount of spare capacity in the economy is likely to evolve over the policy-making horizon, or to determine the underlying health of the government's finances. That way lie policy mistakes.

incorporated formally for the first time in last November's Budget Red Book.

A recent study by Manmohan Kumar, an economist at the International Monetary Fund, suggests that Clarke was over-optimistic. Under certain conditions, he believes that trend growth could hit 2.5 per cent - but it is not there yet.

Kumar argues that the structural reforms of the 1980s have improved growth in productivity - output per person employed - and lowered the unemployment rate which can be sustained without pushing up inflation. But the beneficial impact of these measures have been offset by shocks to the economy and macroeconomic instability.

"So a measurable increase in potential output growth is not apparent in historical data," he concludes. There are various statistical techniques which economists have used to estimate trend growth. The numbers which emerge vary, but they point to broadly the same conclusion: trend growth dropped sharply from the second half of the 1960s to the 1970s, before increasing to at least 2.25 per cent in the 1980s. In the 1990s potential growth appeared to fall again, largely because the recession in the early part of the decade dominates the figures.

Kumar's calculations suggest that trend growth in the UK could be around 2.5 per cent if the following conditions are met:

- Total factor productivity - the efficiency with which inputs of labour and capital equipment are used - continues to grow at the same rate as in the 1980s;
 - The labour force expands as participation in the workforce rises to "normal" levels;
 - The population of working age begins to grow;
 - The economy can sustain unemployment as low as 7 per cent of the workforce without pushing up inflation;
 - The low rates of investment seen in the 1990s are reversed, with investment growing at the slightly higher rates of the 1980s.
- "The evidence that the UK's potential growth rate has not increased over the last decade and a half may appear somewhat surprising," Kumar argues. "After all, the labour product and financial market reforms of the 1980s were supposed to lead to significant improvements in capital investment and productivity growth and push the economy to a higher growth path."
- The UK's performance looks slightly less disappointing when compared to other big European

economies. Potential output growth in France appears to have fallen from 2.75 per cent in the late 1980s to around 2 per cent. Germany too has seen potential output growth decline, reaching about 2.25 per cent. So it may be that the structural reforms of the 1980s protected the UK from a deterioration.

The UK's relative productivity performance certainly improved during the 1980s. Between 1980 and 1993 the UK had the weakest productivity growth in manufacturing of any Group of Seven leading industrial country bar the US and in the following five years it dropped right to the bottom of the table. But since 1979 the UK has recorded the strongest productivity growth of any G7 country bar Japan.

The structural reforms probably created an environment in which the UK was able to eat into the relative productivity advantage which other indus-

trial countries had opened up in the 1970s. Reductions in trade union powers and the removal of restrictive work practices increased employment flexibility, promoted decentralised wage negotiation and strengthened links between pay and performance. Tougher competition encouraged efficiency-boosting measures, which the improved industrial relations climate allowed firms to implement.

Given the improvement in labour supply and productivity, poor macroeconomic policy probably explains why this has not been reflected in better trend growth. Since 1979 the UK has suffered two of the largest recessions suffered in G7 countries since the war, with one of the biggest booms intervening.

Labour will hope that its decision to grant the Bank of England control over interest rates might reduce this instability. This would encourage investment and thereby growth. Deep recessions also raise the level of unemployment which can be sustained without stirring up inflationary pressures in the labour market, although Labour's plan for a minimum wage might have the same effect if it is set at too high a level.

Gordon Brown, Clarke's successor, claimed during the election campaign that Labour's education and investment friendly policies would boost trend growth. This may be true, but in the space of five or 10 years it may only rise to the sort of level which the Conservatives believe they have already achieved.

United Kingdom: Recent Economic Developments, IMF, 1996.

Prices for electricity transmitted for the purposes of the electricity trading market in England and Wales

Period	Pool price	Pool price	Pool price	TS use
12:00-13:00	11.80	11.80	11.80	0.00
13:00-14:00	11.80	11.80	11.80	0.00
14:00-15:00	11.80	11.80	11.80	0.00
15:00-16:00	11.80	11.80	11.80	0.00
16:00-17:00	11.80	11.80	11.80	0.00
17:00-18:00	11.80	11.80	11.80	0.00
18:00-19:00	11.80	11.80	11.80	0.00
19:00-20:00	11.80	11.80	11.80	0.00
20:00-21:00	11.80	11.80	11.80	0.00
21:00-22:00	11.80	11.80	11.80	0.00
22:00-23:00	11.80	11.80	11.80	0.00
23:00-24:00	11.80	11.80	11.80	0.00
24:00-01:00	11.80	11.80	11.80	0.00
01:00-02:00	11.80	11.80	11.80	0.00
02:00-03:00	11.80	11.80	11.80	0.00
03:00-04:00	11.80	11.80	11.80	0.00
04:00-05:00	11.80	11.80	11.80	0.00
05:00-06:00	11.80	11.80	11.80	0.00
06:00-07:00	11.80	11.80	11.80	0.00
07:00-08:00	11.80	11.80	11.80	0.00
08:00-09:00	11.80	11.80	11.80	0.00
09:00-10:00	11.80	11.80	11.80	0.00
10:00-11:00	11.80	11.80	11.80	0.00
11:00-12:00	11.80	11.80	11.80	0.00

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12:00-13:00	11.80	11.80	11.80	0.00
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14:00-15:00	11.80	11.80	11.80	0.00
15:00-16:00	11.80	11.80	11.80	0.00
16:00-17:00	11.80	11.80	11.80	0.00
17:00-18:00	11.80	11.80	11.80	0.00
18:00-19:00	11.80	11.80	11.80	0.00
19:00-20:00	11.80	11.80	11.80	0.00
20:00-21:00	11.80	11.80	11.80	0.00
21:00-22:00	11.80	11.80	11.80	0.00
22:00-23:00	11.80	11.80	11.80	0.00
23:00-24:00	11.80	11.80	11.80	0.00
24:00-01:00	11.80	11.80	11.80	0.00
01:00-02:00	11.80	11.80	11.80	0.00
02:00-03:00	11.80	11.80	11.80	0.00
03:00-04:00	11.80	11.80	11.80	0.00
04:00-05:00	11.80	11.80	11.80	0.00
05:00-06:00	11.80	11.80	11.80	0.00
06:00-07:00	11.80	11.80	11.80	0.00
07:00-08:00	11.80	11.80	11.80	0.00
08:00-09:00	11.80	11.80	11.80	0.00
09:00-10:00	11.80	11.80	11.80	0.00
10:00-11:00	11.80	11.80	11.80	0.00
11:00-12:00	11.80	11.80	11.80	0.00

Prices are determined for every half-hour in each weekday hour. Prices are in pounds per megawatt-hour, rounded to two decimal places. In current prices to permit an intra-hourly market, the current price should be moved one place to the left, eg £12.50/MWh becomes 1.2500/MWh.

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MANAGEMENT

Out of the corporate soup

Tony Jackson examines radical views about the potential limits of outsourcing

How far can outsourcing go? There was a time when getting rid of technical operations such as information technology seemed revolutionary. Not any more. According to enthusiasts, functions close to the heart of an organisation, such as human resources, are going the same way.

Is the virtual company becoming the norm? The question can be taken a step further. In all kinds of industries companies are forming alliances – often informal – for all kinds of purposes. Within companies it is not unknown for equity to be created in specific projects for the benefit of the teams working on them.

Is outsourcing part of a wider movement, in which companies – including virtual ones – are breaking down into a kind of corporate soup?

Not necessarily. A great deal depends on the nature of the industry and the corporation itself. But let us step back to consider the views of the enthusiasts such as Richard Smith, head of outsourcing at Price Waterhouse, the accountancy firm.

The limits to outsourcing, Smith says, are set by the readiness of management to be radical. The starting point is to decide what is your core activity. Everything else in the organisation can then be defined as support.

The question is how to minimise the cost of that support, subject to the usual caveats, such as quality and the risk of things going wrong. In particular, it must be decided whether support functions, from payroll to purchasing, are peculiar to the organisation or generic. If the latter, they are better handled by a specialist.

In Smith's view, this is clearly the next step in the evolution of corporations. Take a company such as Unilever. Several decades

ago Unilever aimed to capture all the value along its supply chain. It owned palm plantations in Africa, a shipping fleet to bring the oil to Europe, mills and factories to turn it into soap and margarine, and retail chains to sell it.

It gradually became obvious that the company did not have expertise in all those industries. Out went the plantations, the fleet, the mills and the shops, leaving only the core activities of product manufacturing and brand management.

Today, Smith says, the same process is being applied across internal functions rather than industries. A good example is human resources.

Some parts of human resources, such as career development, cannot be trusted to outsiders. They represent, as Smith puts it, part of the soul of the company. But, says his Price Waterhouse colleague Alan Little, take an aspect of human resources such as disciplinary problems. In practice, it turns out that 85 per cent of the solutions to these problems apply equally across industries and companies.

He draws an analogy with call centres. Experience shows, apparently, that only 15 per cent of telephone queries to the average company cannot be handled by frontline staff. It follows, Little says, that the other 85 per cent are better handled by a specialist, rather than by a sprinkling of average performers around the organisation.

The question then is how far you can boil down the definition of your core activity. Smith cites one of his clients, BP, as a radical example.

At one time, Smith says, BP worked on the premise that its expertise lay in finding oil. It is



now asking whether its real specialisation might be striking agreements with host governments. In that case, even its geologists might turn out to be a mere commodity.

BP denies that it is thinking along such extreme lines. But it has done some radical things in

retail outlets. It even runs vast complexes to convert the by-products into chemicals. The company which is cited as radical in its processes turns out to be profoundly old-fashioned in its business portfolio – like the Unilever of 20 years ago.

There is a further paradox. The idea that companies are dissolving into corporate soup is rather at odds with the fact that all those outsourced functions are being taken over by a handful of operators: by Arthur Andersen, EDS and Price Waterhouse itself. These are becoming corporate giants in their turn – a new breed of full-service conglomerate.

There is an obvious conclusion. Companies may become hard to recognise as they swap business functions around. But they show remarkable durability as the preferred model for doing business.

Perhaps this should not surprise us. Companies are not merely the sum of their functions. They are also legal and social entities. There may be an element of time lag here, since legal frameworks are slow to evolve. But there is more to it than that.

The virtual company, after all, is scarcely a novelty. Many textile and shoe companies have worked that way for years. They design products and market them but have long since stopped making them. The same applies to project engineers, shopping mall developers and all those who make a living organising the work of others.

Conversely, the BP example is a reminder that in some industries, the virtual model does not remotely apply. In others, it applies to a strictly limited extent. The carmakers still assemble cars, although many of them have long since outsourced their components.

In other words, it all depends. The outsourcing movement is alive and well. But so is the corporation, virtual or not.



Cole (left) and Paul: neither of us is like our stereotype

PARTNERS

WSP

Chris Cole, 50, joined WSP as an engineer in 1972. Fifteen years later he became managing director. When the company floated on the USM in 1988 Malcolm Paul, 46, joined the board as financial director. WSP specialises in all aspects of engineering from design to construction. The annual turnover is £56m.

Malcolm: "When I first met Chris he was a client of mine, which meant fees. He wanted me to help him acquire equity before WSP went public so he was obviously ambitious. Accountants don't mind helping clients who want to achieve something, but I eventually wanted to be in charge of my own destiny."

There is still a Monty Python image of the boring accountant which I've desperately tried to escape. It's the same for Chris with his engineering background, but instead of people thinking 'yawn yawn', they assume he's the guy in oily clothes carrying a spanner. It's interesting that neither of us is like our stereotype.

We've both learned enough about the other's subject to repeat it to a third party and sound well-informed. I know a couple of buzzwords – like 'fan', 'coil' and 'vertical transportation', which is the engineer's term for a lift. Chris now knows about gearing – which he talks a lot about – and just about knows how to pay a company. I tell Chris I've only taught him the first chapter in case he gets too big for his boots.

He always wants things explained to the nth degree, which gets terribly wearing. I know instinctively whether something is right; he'll insist on reading the fine print. I'm not the kind of accountant who makes an issue

of being one penny out. I don't sit in the back counting the money while he's running around up front. It's been important to us that we've had equality from the start.

Chris: "It was Malcolm's idea to take the company public. In a corporate arena we had the mechanism for growth which we couldn't have achieved in a partnership. It also gave us more money and the ability to exit in a responsible and timely manner."

As a partner no bigger ever wants to buy your shares, whereas in a public company the shares are a marketable currency. A lot of professional companies like ours don't develop after going public because they don't have the confidence and acumen to acquire other businesses. That's never been a problem with us.

In the 1980s it was easier to grow because the whole construction industry was going mad. I think Malcolm could see the potential, which is one of the reasons he came on board. Also, I needed a good financial adviser at the time and Malcolm understood the business.

If we'd tried to build the company organically it would have taken far too long. We didn't have 50 years to grow so we used the stock market to realise our ambitions. One of the reasons for our success has been Malcolm's decisiveness. He's very good at cutting the crap, especially when dealing with lawyers and accountants. They find his approach incredibly arrogant yet he's the only person I know who can get a six-hour meeting down to under two hours.

It's great having someone like him on board. He goes through all the detail and – which is unusual for an accountant –

Fiona Lafferty

Today's students want to be management consultants, says Diane Summers

Dreamers and shakers

What do final-year students want to be when they grow up? At one time something vaguely altruistic or at least glamorous might have appeared at the top of the list of dream jobs. These days students fantasise about being management consultants.

For the second year running, consultants McKinsey and Co, Boston Consulting Group and Andersen Consulting have been ranked the three most desirable employers by final-year business and engineering students at European universities.

A total of 4,700 students at 56 institutions in 13 countries were questioned by Universum, the Stockholm-based media and communications company, for its annual survey.

The consultant effect is not restricted to Europe. When Universum carried out a comparable survey in the US recently, it got a similar result – McKinsey and BCG topped the list, although Goldman Sachs, the US

investment bank, crept in third.

Just three years ago computer companies dominated the dream jobs league in Europe. Hewlett-Packard was top dog, and IBM and Microsoft featured in the number four and five slots of the European survey. By this year they had dropped to slots nine, 15 and 11 respectively. Apple, meanwhile, has plummeted to the bottom, from 12th position in 1995 and 48th last year.

Future employability is what graduates are looking for most, according to Universum. Michal Kalinowski, vice-president, says: "The old definition of job security has been replaced with a new definition. Today, job security means future employability – in other words, students want to work for a leading company that will be a good reference for their future career."

Europe: the most popular employers			
RANK	COMPANY	RANK	COMPANY
1. (1)	McKinsey & Co.	6. (4)	BMW
2. (2)	Boston Consulting Group	7. (10)	Unilever
3. (3)	Andersen Consulting	8. (5)	Siemens
4. (5)	Procter & Gamble	9. (7)	Hewlett-Packard
5. (16)	Nestlé	10. (11)	ABB

Source: Universum

New companies to make the top 50 list this year include: General Electric; Audi; Scandinavian Airlines; Esso/Exxon Chemical; and Deloitte Touche Tohmatsu. Companies that have dropped off the bottom include: Renault; Norsk Hydro; Bosch; Statoil; and Heineken.

Behind management consultancy, which 14 per cent of the sample said was their ideal industry, come engineering (10 per cent) and consumer goods (8

per cent). Least popular sectors appear to be consumer electronics (1 per cent), insurance (1 per cent), and pulp and paper (zero).

The multinational company seems to be the most popular type of organisation to work for (39 per cent). Students quoted having colleagues of other nationalities, adapting to foreign cultures and business practices, and working in a foreign language as particular benefits. Large national or local companies (15 per cent) come second, while the public sector and government agencies (1 per cent) are the poor relations with the least votes.

And what do graduates most want to get from their first employer? Opportunity to work on a variety of tasks is top. Meanwhile, a below-average salary is rated the most unattractive characteristic. Indeed, slaving for below-average reward is seen as even less acceptable than working with morally doubtful products or services.

A cosy office cat is let out of the bag



Lucy Kellaway

Most women who have jobs and young families come to work for a rest. There may be a few who do their resting at home, but they must have wall-to-wall domestic help or nasty, stressful jobs.

The rest of us look forward to work for a bit of relaxation. In the morning we can't wait to close the door on the noise, squalor and undone tasks and head for a calm adult world of chats and coffee.

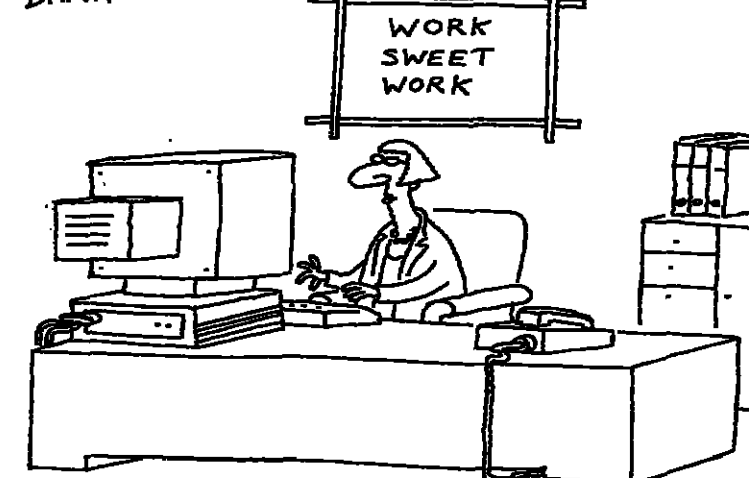
Until last week I thought this was our secret. But now the cat is out of the bag. Arlie Russell Hochschild, an academic at Berkeley, has done research on how women behave at home and at work and has written a book about it. It turns out that Frederick Taylor's ideas about streamlining production apply more to domestic tasks than to work ones. This most definitely rings a bell. I have just done a straw poll of working mothers and found that at home they rarely make a wasted movement. None of them ever goes up or down stairs without carrying stray objects. A free minute is long enough to get the clothes out of the washer and put them in the drier. Five minutes is plenty to polish the children's shoes. And a spare two hours – that is enough to make a start on painting the bathroom.

At work it is quite different. A brief pause in the work flow means it is time for a biscuit and an aimless gossip. A slack hour or two is an invitation to go to the hairdressers. Hochschild's conclusions are, to put it politely, eccentric. She says companies should be worried. They should reflect on whether their employees are becoming one-sided, narrow and uncreative. And if family lives fall apart as a result of skiving at the office, then that is apparently bad too. Unhappy employees are not the most productive. It is in employers' interests to help make home life more tempting.

Maybe in ultra-enlightened California companies really do think this way. But in Britain I fear a different response. If women find work life a doddle in comparison with home, then the obvious thing for an employer is to give them even more to do and find ways of making their work lives that little bit harder.

Everyone hates voicemail. It has just been voted the number one way that a company can irritate its customers in a survey by Real Business magazine.

BANX



faxes – anything from business travel offers to conferences on management training. Thirsting for revenge, he posts these faxes back to the sender in an envelope without a stamp, gleefully imagining the company forking out for postage.

This strikes me as a feeble way of getting your own back. It assumes that the faxes are being sent out by real people – rather than by programmed machines – who care one way or another about how their faxes are going down.

However, his response underlines what a bad way unsolicited faxes are of getting new customers. If people are cross before they even see your message, the prospect of it getting anywhere beyond the bin seems rather slim.

Want to write a management book, but feel that every conceivable idea has already been taken? Don't worry: Tao is the answer.

I've just been sent an advance copy of *The Tao of Sales* by Dr E. Thomas Behr. It is full of essential tips such as "Like water, be fluid and supple; work in harmony with all things, not in opposition." Behr, who lives on "a pre-revolutionary farm" in New Jersey, sounds like a New Age nutter.

But take heart. It is not essential to be New Age yourself, nor to know the first thing about Chinese philosophy. Take *The Tao of Coaching* by Mark Landenberg, published last year. The author is a straight-laced partner of McKinsey who has written a perfectly straightforward book about coaching. His publishers obviously realise that the T-word sells, a lesson others should follow.

Many subjects have not yet received the Tao treatment. As far as I know, *The Tao of Re-engineering* and *The Tao of Bookkeeping* are bestsellers waiting to be written.

Notice of suspension period and conversion price adjustment
NOTICE TO THE HOLDERS OF
US\$200,000,000
Winbond Electronics Corporation
(Incorporated with limited liability in Taiwan, Republic of China)
2 per cent. Convertible Bonds Due 2003
(the "Bonds")
CUSIP #972657AA8 CINS #V95873AA6
NOTICE IS HEREBY GIVEN to the holders of the outstanding Bonds of Winbond Electronics Corporation (the "Company"), in accordance with the Terms and Conditions of the Bonds, that the bondholders' right to convert any Bond into the Company's Shares shall be suspended and shall not be exercisable during the following period (the "Suspension Period"):
The period from the close of business on January 22, 1997 up to and including May 24, 1997.
The next Consolidation Date is hereby determined as June 5, 1997. In order to be included in the aforementioned Consolidation Date, holders wishing to convert their Bonds must submit their notice of conversion and the Bonds no later than the close of business on June 4, 1997 at the office of the Conversion Agent.
In addition, the Company will distribute a 30% stock dividend to its shareholders and 13.6 million shares of stock bonus to its employees on May 24, 1997 (the record date). In accordance with the provisions of the indenture constituting the Bonds, the Conversion Price will be adjusted from NT\$30.83 per share to NT\$23.46 per share effectively May 24, 1997.
Bondholders should consult with the Terms and Conditions of the Bonds contained in the Offering Circular dated March 6, 1996 for specific provisions concerning the conversion rights attaching to the Bonds.
WINBOND ELECTRONICS CORPORATION
By: Citibank, N.A. as Trustee
May 10, 1997

NOTICE OF REDEMPTION
TO THE HOLDERS OF
Industrial Development Bank of India
₹100,000,000 Floating Rate Notes
due 1999
CUSIP#458054AA
NOTICE IS HEREBY GIVEN that pursuant to Condition 7(c) of the Terms and Conditions of its Floating Rate Notes due 1999 (the "Notes"), Industrial Development Bank of India (the "Bank") has exercised its option to redeem all of the outstanding Notes on July 10, 1997 (the "Redemption Date") at their principal amount. From and after the Redemption Date, to the extent that funds for redemption of the Notes shall have been made available, interest shall cease to accrue thereon and the only right of the Holders shall be to receive payment of the Notes at their principal amount, together with any accrued interest to the Redemption Date, upon presentation and surrender thereof in the manner specified in Condition 4(a) of the Terms and Conditions of the Notes.
INDUSTRIAL DEVELOPMENT BANK OF INDIA
By: Citibank, N.A., Fiscal Agent
May 8, 1997

TO SAVE THE RAINFOREST WE PROVIDE TREES TO CHOP DOWN.
By helping people in the rainforest to plant trees, WWF are working to solve some of the problems that cause deforestation.
Where trees are chopped down for firewood, we help plant fast growing saplings as a renewable source of fuel. This is particularly valuable in the impenetrable Forest.
Uganda, where indigenous hardwoods take up to two hundred years to mature.
The Marikamba forest WWF gave to the local villages are ready for harvesting in only five years.
Where trees are chopped down for use in construction, as in Pakistan, we supply fast growing local pine species.
The idea behind all our work is that rainforest used wisely can be used forever.
Write to the Membership Officer at the address below.

World Wide Fund For Nature
WWF
You would like to help nature? You work in the rainforest.
We are looking for people who are passionate about the environment and who want to make a difference.

مكتبة النجف

Telford
Recruitment details: phone: 01952 293262

FINANCIAL TIMES COMPANIES & MARKETS

Monday May 12 1997

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IN BRIEF

FDA report hits Chiron shares

Shares in Chiron, the US biotechnology company, fell \$1% to \$18% on Friday after a US Food and Drug Administration advisory committee found there was insufficient evidence to show the efficacy of Myotrophin, a treatment for Lou Gehrig's disease. The stock later recovered to close at \$19%, down 1%. Page 19

NPI restructures \$1bn Asian portfolio

National Provident Institution, the UK mutual life insurer, has carried out one of the largest ever programme trades in a move to restructure its \$1bn portfolio of Asian shares. Page 18

Debonair to seek Easday listing

Debonair, the Luton airport-based low-cost airline, is to seek a listing on Easday, the pan-European exchange. The company is expected to be floated by October. Page 18

Meltek shares sink further

Meltek, the UK AIM-listed provider of computer support services, warned it would incur a large loss in the first half. The company announced in March that it made a pre-tax profit of £120,000 (\$194,400) in 1996, but warned that trading in the current year was below budget. Page 18

Halifax rejects private brokers' plan

Halifax building society is to turn down a request from a private client stockbrokers' group that wants it to re-organise the auction of members' shares when it floats next month. The UK group wants 25 per cent of shares being auctioned to be kept for private investors. Page 18

Tring founder to seek board's removal

One of the founders of Tring International, the UK budget music company started by two former schoolfriends, is seeking to remove the board. Since flotation in February 1994, Tring has issued two profit warnings. Page 18

Skypharma arm gets drug approval

Skypharma, the pharmaceutical company, will announce today the first successful product launch by Jago, its Swiss subsidiary acquired for £128m (\$207m) last year. Roche, the Swiss pharmaceutical group, has received regulatory approval in Switzerland for Madopar-DR, which Jago developed. Page 18

GKN in Thailand move

GKN Automotive Asia Pacific Holdings, part of GKN's driveline division, has formed a joint venture in Rayong province, Thailand, to make components and assemble constant velocity joints and driveshafts. Page 18

Interflora board ousted

A bitter fight for the future of Britain's flower bouquets turned against the board of Interflora, the association of independent florists. A group of rebel florists ousted the entire board of the 74-year-old organisation in protest against plans to restructure its prices. Page 18

Silver looks for fresh lift

The silver market, which has been stuck below the \$5 a troy ounce level, will look for fresh impetus with the publication of Gold Fields Minerals Services' report this week. The group will present its annual world silver survey on Wednesday. Page 21

Slovenian houses set for hard times

A modest pick-up in domestic demand helped lift the pessimistic mood of the Slovenian stock market last week, but local brokers warn that the recovery could be short-lived. The Bank of Slovenia has refused to soften the measures introduced earlier this year to control foreign capital inflows and emerging market investors are shunning Ljubljana. Page 22

DMG bosses may get bonus

Senior managers could be entitled to millions despite London operations posting 1996 loss

By John Gapper in London

Deutsche Morgan Grenfell, the London-based investment bank, is likely to disclose that a group of its senior managers became entitled to multi-million pound bonuses last year although the group recorded a loss in its UK subsidiary.

A number of directors are thought to have accumulated gains of several million pounds from a phantom option scheme which pays bonuses according to internal financial performance measures.

Mr Michael Dobson, DMG chief executive, is believed by some executives to have become entitled to about £7.5m (\$12m).

Deutsche Morgan Grenfell Group, the London company that is the main corporate vehicle for DMG, is expected to report a downturn in 1996 as a result of losses on hidden investments in its asset management arm made by Mr Peter Young.

DMG Group's accounts will also include the substantial cost of building an equity broking arm from scratch. Its

bond division, which is the most profitable part of its operations, is included in the accounts of Deutsche Bank.

The disclosure could reignite controversy among investment banks, and within Deutsche Bank, over the salaries and bonuses paid by DMG to recruit and retain investment bankers.

It is also potentially awkward because of the background of disruption and losses in its fund management arm. Deutsche has estimated the total cost of the Peter Young affair at DM 1.2bn (\$730m), including losses and compensation.

The phantom option scheme is being included in the 1996 accounts for tax reasons. The individual gains likely to be shown include rewards for several years, some of which date back to the scheme's first year in 1990.

The bonuses will be paid out over several years and cannot be claimed immediately. DMG is thought to have taken legal advice on what it will have to disclose in the accounts, which

have to be filed soon at Companies House.

Mr Dobson, who would not comment on his own gain, said the phantom option scheme rewarded "about 200" senior managers in DMG according to measures including return on equity, which averaged 30 per cent between 1993 and 1995.

"There may be a presentational issue for us, but this is a long-term incentive scheme that has served the bank well over several years. The fact that it had to be crystallised last year because of tax is coincidence," he said.

The accounts of Morgan Grenfell & Co, its merchant banking arm, which were lodged at Companies House last November, show a sharp rise in remuneration. A dozen employees earned more than £1m each in 1995, compared with just one in 1994.

Morgan Grenfell's two highest-paid employees for 1995 both earned £2.1m, while three more staff earned between £1.5m and £2m. The group started recruiting staff from other investment banks during 1995 to build up its operations.



Michael Dobson is believed to be entitled to \$12m

General Electric arm takes Spanish cable stake

By David White in Madrid

A US consortium including General Electric's financial arm GE Capital Services and Bank of America has become the largest shareholder in Cableuropa, a Spanish cable TV company.

Cableuropa said the deal would help to consolidate a leading position in the sector in Spain, which besides TV broadcasts would involve telephone and interactive services for households and corporate clients.

It estimated it would be able to generate investments of some Ptas360bn (\$2.5bn) for Spanish cable projects. The deal marks the latest stage in the expansion in Europe of GE Capital, which has made several acquisitions.

The consortium - Spain Telecommunications (Spainco) - was formed by the third US partner, Callahan Associates International, headed by Mr Richard Callahan, former president of US West International.

The US partners' combined 32.5 per cent stake was bought from three Spanish electrical utilities, Endesa, Unión Fenosa and Hidrocarburos, for an undisclosed sum.

The deal marks a further breach in the would-be strategic alliance between Endesa and Banco Central Hispano, which until now had equal 20 per cent shares in the cable venture.

It follows a pair of ways between the two groups in the bidding to form Spain's second fixed-line telephone operator, in which Endesa is allied with Stet of Italy and BCI with the French-German-US GlobalOne grouping.

The other shareholders in Cableuropa are Banco Santander with 27.5 per cent, the Ferrovial construction company and media venture Multitel. Spainco is also to take 25 per cent stakes in Cableuropa subsidiaries.

Cableuropa is involved in cable TV companies operating under provisional licences or on a trial basis in six Spanish cities, and is competing for 10 local licences.

Last year it obtained a court order halting the operations of rival venture Cablevision on the grounds of unfair competition by the Telefonica telecommunications group.

FTSE All-Share moves to real time

By Martin Dickson in London

The FTSE All-Share Index, the main benchmark for measuring fund managers' performance in UK equities, will be calculated every minute of the trading day from today. Until now, it has been updated only at the end of the day's trading.

The index is owned and managed by FTSE International, a joint venture between the Financial Times and the London Stock Exchange. The move reflects increasing demand for the monitoring of portfolio risk throughout the day.

The All-Share Index, which was launched in 1982, covers some 98 per cent of UK quoted stocks. Britain's first "real time" or constantly updated, share index was the FTSE 100, founded in 1984, which consists of the largest UK companies by market capitalisation.

It was created because the futures and options markets needed an index on which to

deal. The move by the All-Share to real time calculation will not lead to the creation of derivatives products because the large number of index constituents makes it impractical.

From tomorrow's edition, the FT will report the hourly movements of the All-Share in the FTSE Actuaries Share Index table which appears on the London stock market reports page. This table will include hourly movements in the FTSE SmallCap Index, which covers the smaller constituents of the All-Share.

We are also moving our statistics on the FTSE All-Share, to this table, and are adding coverage of the FTSE 350 index and investment trusts, and the All-Share index ex-investment trusts.

To make space for these improvements, we have stopped coverage of the FTSE 350 industry baskets. Readers seeking further information on these baskets should contact FTSE International on 0171 448 1810.

Co-op seeks legal change to deter future predators

By David Blackwell

Britain's Co-operative movement has rejected a fundamental change to its structure and opted instead to seek changes in the law to keep predators at bay, following an abortive £1.2bn (\$1.9bn) bid by Mr Andrew Regan.

The framework for a new Co-operative Bill was handed to the UK government last week. Mr Graham Melmoth, chief executive of the Co-operative Wholesale Society, said the movement had to make "an articulate case for a long overdue reform".

The Co-operative Council, to which societies belong, wants to replace the Industrial and Provident Act. It says the act is not tailor-made for co-operatives, and that the movement should be governed by its own legislation.

Before the election the Labour Party said it would give any proposals serious consideration. Any new law is expected to include tougher

rules safeguarding co-operatives from predators. Questions about the failed bid from Mr Regan and his Lanica Trust were raised at the Co-operative Retail Society's annual general meeting in London on Saturday.

Mr Peter Rowbotham, CRS chairman, said afterwards there had been worries about the threat posed by future predators. "We assured delegates that we are taking the appropriate defensive measures," he said. The CRS, the biggest single shareholder in the CWS, plunged £14m into the red last year.

Delegates expressed concern over the results, but backed the management's plans to triple investment to £200m. But there is no question of a merger between the CWS, with sales of £23m, and the CRS, with sales of £1.7bn. Mr Rowbotham denied there was a rift between them, but said "we cannot afford to start talks which could prove fruitless". Delegates left with two

main impressions - that the CRS should concentrate on making its own business more profitable, and that it should take the necessary steps to protect its mutual status.

Meanwhile it emerged that Mr Regan and his partner Mr David Lyons were behind County Produce, an agricultural marketing co-operative that joined the CWS last year.

The CWS said it would have had no influence on the bid and that it checked with the Registry of Friendly Societies that County was a bona fide co-operative before accepting its application.

Shares in Lanica Trust, Mr Regan's investment vehicle, remain suspended while a stock exchange inquiry into dealing in the shares continues. Lanica also faces a civil action from the CWS.

Mr Regan and Mr Lyons are vigorously contesting a private prosecution by the CWS for aiding, abetting, counselling or procuring theft and for handling stolen property.

Small company shares rise on Wall Street

By Jane Martinson in New York

Wall Street traders were given a fillip last week - not from the record-breaking performance of the blue chips but from the flickering signs of life among smaller company shares.

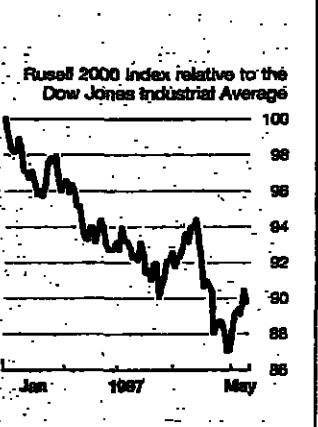
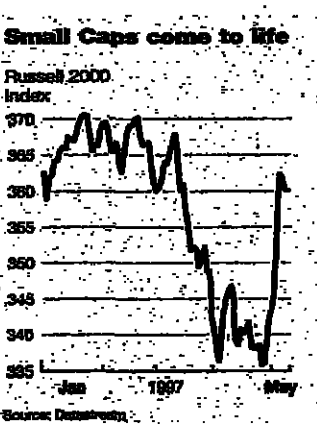
After a year in which the valuation gap between small and large stocks grew to unprecedented proportions, the relief was palpable. "What we have seen is a rebound from one of the worst periods of performance in the history of the smaller company index," said Ms Claudia Mott, head of smaller company research at Prudential Securities.

The increases that have prompted such enthusiasm have not been spectacular. The Russell 2000, the most widely used index for smaller companies, closed 2 per cent up on the week, compared with a 1 per cent improvement for the S&P 500, which covers the largest groups in the market.

However, the Russell 2000, which includes companies valued between \$100m and \$1bn, had failed to outperform the S&P 500 since the beginning of the year.

After a year in which the smaller companies have lagged the larger by some 20 per cent, such signs of recovery have received a warm welcome. The improvement has given succour to bulls who want to see a broader based recovery.

Research by Prudential suggests that the performance gap between the S&P 500 and the Russell 2000 in the year to April was the second worst in the history of the index. The only time when smaller



was during the recession of 1990, prompting Ms Mott to call the gap "unprecedented without a recession". Smaller companies typically perform badly in a downturn when investors flock to the safety of larger groups with diversified earnings. The past year has enjoyed benign economic conditions when cheap credit and a bull market should have benefited younger stocks.

Several reasons are given for such an unusual situation. First, the outstanding performance of the S&P 500 and the Dow Jones Industrial Average has partly skewed the comparison.

Mr Randy Haase, senior portfolio manager at Alliance Capital, says there has been "a quasi bear market" with investors wanting to join in but fearing risky stocks. He says investing has become a "form of savings account" with smaller investors picking the shares that appear least risky.

Such a situation has enabled the Alliance Quasar growth fund to buy shares in smaller companies at prices below the

ings, while large multinationals are trading on multiples of 40 times earnings in spite of much weaker revenue growth, says Mr Haase.

The gap between big and small is particularly marked among technology stocks, the second largest constituent of the Russell 2000 at 14 per cent. Mr Ted Aronson, a Philadelphia based fund manager, says the performance gap between the big technology stocks and smaller groups had grown to as much as 50 per cent by the end of April.

Analysts also believe that the Russell took time to digest the record number of initial public offerings in 1996, partly caused by the demand for new technology shares earlier in the year. Some 860 smaller companies came to the market, raising over \$80bn and increasing fears about competition. But, after such a downturn, Mr Aronson believes a "reversion to the norm is long overdue". He sees this week's rally as a sign that the market has made the same assumption.

Companies in this issue		
AIG	4	Group 4
BHP	4	Guinness
Bank of America	17	Hongkong Telecom
Bechtel	4	Interflora
Bre-X	19	Kokusai
CVRD	5	Lippo
Cableuropa	17	Meltek
Caradon	18	Midlands Electricity
Cephalon	19	Mitsubishi Materials
China Everbright	19	National Grid
Chiron	19	National Provident
Christies Int	18	NationsBank
City Pacific	19	Nihon Cement
Co-op	17	Nippon Credit Bank
Cosmo	4	Norconsult
DMG	17	P&T Technologies
Daiichi	4	Premier Prison Serv
Debonair	18	Prudential
Fountain Forestry	18	Skypharma
GE Capital	17	Sogecable
GKN Automotive Asia	18	Tring
	17	Wackenhut
	18	Watmoughs
Market Statistics		
Base lending rates	23	London recent issues
Company meetings	12	London share service
Dividend payments	12	Managed funds service
FTSE/A World Indices	20	Money markets
FT/Bulge in currencies	21	New int bond issues
Foreign exchanges	22	World Stock Market Indices

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COMPANIES AND FINANCE

Robert Fleming Securities undertakes one of largest ever programme trades for UK mutual

NPI restructures \$1bn Asian portfolio

By George Graham, Banking Correspondent

National Provident Institution, the UK mutual life insurer, has carried out one of the largest ever programme trades in a move to restructure its \$1bn portfolio of Asian shares.

Robert Fleming Securities, the UK based broker which

carried out the programme trade for NPI, executed more than 11,000 individual trades in order to reshuffle the portfolio of shares in nine countries, including Australia, Japan and Hong Kong.

Programme trading involves a bulk order for buying and selling a number of different shares: in this case more than 250 individ-

ual securities. The order is put out to tender for an all-in price, which helps to reduce the cost of the trade, especially in Asian markets where commission rates can be high. Some Asian markets are also relatively illiquid, thus increasing the risk of a price fall as soon as the manager starts trying to sell.

Although the trade was handled by Robert Fleming in London, many of the individual purchases and sales were carried out by its associate Jardine Fleming, a leading Asian equity broker.

The restructuring of the portfolio follows the arrival at NPI earlier this year of two new Asian fund managers, Mr Lloyd Branford and

Mr Geoffrey Randells, recruited from Goldman Sachs Asset Management. The programme trade allowed them to imprint their own stamp on the portfolio.

"When a new team comes on board, the portfolio should reflect its own views," said Mr Branford. "If performance suffers now, we

can't blame it on the previous manager."

The NPI portfolio now has an increased Hong Kong weighting, and also applies the new team's criteria for selecting individual equities: management strength, defensible franchises, secure income streams and attention to the rights of minority shareholders.

NEWS DIGEST

Caradon chief gets 20% more

Mr Peter Jansen, chief executive of Caradon, the UK building materials group, received a 20 per cent increase in his total remuneration package last year to \$490,245.

The 1996 package was boosted by an \$88,818 bonus, reflecting the growth in the company's earnings per share.

Caradon's executive directors are eligible for a bonus if earnings per share increase by at least 13.1 per cent - in 1996, the marginal increase above that minimum level was 6.6 per cent.

Mr Jansen's basic salary was unchanged on the previous year's at \$283,000, according to the annual report. He was also granted options over 152,413 shares, which can be exercised between 1999 and 2006 at a price of 221.3p.

Two months ago, the company unveiled plans to return £174m to shareholders, following a string of disposals which raised £220m.

It also reported a 33 per cent rise in annual pre-tax profits to £152.5m. However, the share price has remained under pressure, with the shares closing on Friday at 238p, near where they stood a year ago, as the company continued to face tough European construction markets.

Chris Gresser

Fountain Forestry first buy

Fountain Forestry, which has 400,000 acres of forest under management in the UK and US, will today announce its first acquisition since floating on AIM in December. It is paying up to £250,000 for Phoenix Landscapes, which undertakes landscaping work for UK local authorities, utilities and corporate customers. The acquisition will lift annual group sales by about 50 per cent to £30m.

David Blackwell

Meltek shares sink further

Meltek, the UK AIM-listed provider of computer support services, warned that it would incur a significant loss in the first half. The company announced in March that it made a pre-tax profit of £120,000 (£469,000) in 1996, but warned that trading in the current year was below budget and margins were under pressure.

House broker Rowan Dartington had been forecasting a profit of £500,000 for the year, but said yesterday the group would now probably make a loss. Meltek is currently taking legal proceedings against its former Netherlands joint venture partner which pulled out in November causing a share plunge.

Pilat strongly ahead

Pilat Technologies International, the UK recruitment consultant which came to AIM last December, increased pre-tax profits last year by 78 per cent to £1.3m as turnover climbed from £10m to £14m. The company recorded strong growth in its software and human resources businesses in the UK and Israel. Software revenues advanced about 50 per cent, the strongest UK source being a project with BskyB to develop its future broadcasting management system.

Christies acquisition

Christies International, the UK auctioneer, is paying £2.46m to acquire the 50 per cent stake in Studio SMK at present owned by Watmoughs. SMK, which is engaged solely in pre-press systems involved in the production of Christies' auction catalogues, will become a wholly owned offshoot.

Watmoughs has also sold its stake of 3m shares (1.8 per cent) in Christies, but retains a one-third investment in White Brothers (Printers), Christies' main printing arm.

Red Stripe brewer plans rights

Desmos & Geddes, the 51 per cent-owned Jamaican offshoot of Guinness, is planning to launch a J\$900m (£15m) rights issue as part of a five-year J\$2.5bn capital expenditure and investment programme.

D&G, Jamaica's largest brewer, is mainly noted for its Red Stripe lager but also produces a number of international brands under licence, including Heineken, Pepsi-Cola and Schweppes. Guinness is underwriting the issue and Heineken, the Dutch brewer which holds a sizeable stake in the Jamaican company, said it would "fully support" the issue.

Interflora directors cut off at the roots

By Richard Wolfe

A bitter fight for the future of Britain's flower bouquets yesterday turned decisively against the board of Interflora, the association of independent florists.

A group of rebel florists succeeded in ousting the entire board of the 74-year-old organisation in protest against plans to restructure prices.

At an EGM yesterday, about 850 florists voted marginally in favour of deselecting 11 directors. The board reacted by calling for a postal ballot of all 2,600 members, to be held within the next two weeks.

But the real battle was over the soul of the UK's florist shops, which are facing

intense competition. Interflora currently co-ordinates flower deliveries across the country, providing computer terminals to florists and clearing payments between its members.

The board had proposed to lift the florists' annual subscription charge from £300 to £1,750, (\$483 to \$2,800), while lowering the cost of each transaction from £2.99 to 60p.

Interflora directors had wanted to revise prices as part of a wide package of measures to harmonise the service across the UK.

The board was also investigating ways of converting Interflora into a limited company, with shares distributed to members, and a possible flotation at a later date.

But the rebels described the changes as a step towards franchise status. They condemned the board for appearing to be more keen on selling Interflora than serving members.

The rebels point to the experience of Interflora's counterparts in the US, where they say similar price changes led to a decline in membership and market share.

Rival organisations are understood to be recruiting Interflora members within the UK.

Interflora rejects claims that it is trying to create a chain of florist stores.

Interflora is a non-profit-making organisation, which reported revenues of £12m last year from sales of £80m.

Halifax rebuffs private brokers

By Christopher Brown-Humes

The UK-based Halifax building society will this week turn down a request from private client stockbrokers who want it to reorganise the auction of members' shares when it floats next month.

The Association of Private Client Stockbrokers and Investment Managers (Acpim) wants 25 per cent of the shares being auctioned to be set aside for private investors.

Halifax, which is headed by Mr Mike Blackburn, chief executive, says this would not secure the best price for its members, and the society is pressing on with plans to sell the shares to

institutions.

Alliance & Leicester, the former UK building society which converted to a bank last month, arranged three auctions for 600,000 customers who wanted to sell their shares immediately. But they generally did less well than they would have done by selling in the market, receiving an average of 533p per share, this compares with Friday's close of 599p.

Halifax says there is nothing to stop retail brokers taking part in its auction, but accepts there would be problems for execution-only brokers knowing what price to bid. To get round this difficulty, Acpim wants brokers to be able to buy at the weighted average price of that paid by institutions. But



Mike Blackburn: preparing for flotation in June

Halifax says this would contravene the rules of the auction, where shares go to the highest bidder, and says it wants the best possible price for its members.

Halifax is due to float on June 2, when its 7.6m members can expect to receive as much as 59 pence per share, an average of nearly £2,000 each.

Skyepharma's Jago gets drug approval

By Roger Taylor

Skyepharma, the UK embryonic pharmaceutical company, will announce today the first successful product launch by Jago, its Swiss subsidiary, since last year's £128m (\$206m) acquisition.

Roche, the Swiss pharmaceutical group, has received regulatory approval in Switzerland for Madopar-DR, which is a reformulated ver-

sion of its established drug for Parkinson's disease.

The improved controlled release version developed by Jago allows two drugs to be taken in a single pill which gradually releases them at different speeds. Skyepharma said, "this is the first time we have managed to combine two drugs with different release profiles in one pill."

However, the company acknowledged that the finan-

cial revenues from the product would not be substantial, with royalties between 3-5 per cent and sales in Switzerland at about \$5m.

Worldwide sales are currently \$140m, and Skyepharma said it expected Roche to roll out the marketing of the reformulated drug through Europe and Latin America. Madopar-DR is not approved or marketed in the US.

"Initially we might receive

annual revenues of about \$200,000, which could eventually rise to \$6m", said Mr Tim Ryan, head of corporate communications.

Skyepharma, founded in 1995 by Mr Ian Gowrie-Smith, formerly head of Medeva, the pharmaceuticals group, reported a loss of £14.5m for the 17 months ended 1996.

It specialises in developing controlled release formulations of existing drugs for pharmaceutical companies.

Because most of Skyepharma's clients demand secrecy, it has been unable to reveal details of its products in development, with investors taking much on trust.

As well as royalties for developing Madopar-DR, Skyepharma will manufacture the product for Roche. This will initially be done at its facility at Basle, but may be transferred to its newly acquired plant at Lyon in France.

Tring founder seeks to oust board

By David Blackwell

One of the founders of Tring International, the budget music company started by two former schoolfriends, is seeking to remove the board.

Since flotation in February 1994 at 118p, Tring has issued two profit warnings. Mr Mark Frey and Mr Philip Robinson acted as joint chief executives at the float. Mr Frey, who resigned his executive post in October 1995 and his non-executive role in December, is now aiming to oust Mr Robinson and return to the board.

Mr Frey and another founder investor, Mr Jay Chernow, have asked for an emergency meeting. They want to replace Mr Robinson; Mr Joe Bolom, non-executive chairman; Mr Steve Porter, finance director; and Mr Robert Leigh, non-executive director.

GKN venture in Thailand

GKN Automotive Asia Pacific Holdings, part of GKN's driveline division, has formed a joint venture in Rayong province, Thailand, to make components and assemble constant velocity joints and drivestuffs.

GKN Automotive will have 51 per cent of the new company, GKN Driveshafts (Thailand). Its Thai partners - Concept Management and Mr Khemadhat Sukondhasingha, chairman, and affiliates - will hold 49 per cent.

Debonair to seek Easdaq listing

By Michael Skapinker, Aerospace Correspondent

Debonair, the low-cost UK airline, is to seek a listing on Easdaq, the pan-European exchange. Mr Franco Mancassola, Debonair's chairman, says flotation should take place by October.

Mr Mancassola says Debonair is in advanced negotiation with McDonnell Douglas of the US about the purchase of 10 MD-95 aircraft, with options on a further five.

He says he has been assured that production of the aircraft will go ahead when McDonnell Douglas is taken over by Boeing of the US.

Debonair, which began operations last year, is largely owned by US investors, although registered in the UK. It says it needs a European listing to fund future development and to comply with EU ownership rules. These stipulate that EU airlines must be at least 50 per cent European-owned.

The airline's decision follows the announcement by Ryanair, the Irish low-cost carrier, that it is to float later this month on the Dublin stock exchange and on Nasdaq in the US.

Debonair was established to take advantage of the liberalisation of the EU aviation market, which was completed on April 1. The airline expects to make a pre-tax loss of £13.9m (\$22.5m) in the year to March 1997, followed by a £4m pre-tax profit in 1997-8. It expects profits to be

£16m in the year to March 1999.

The airline flies between Luton in the UK, Barcelona, Madrid, Rome, Munich, Düsseldorf and Copenhagen. It has a fleet of six leased British Aerospace 146-200s, with a seventh due for delivery this month.

The leases on these aircraft expire towards the end of the decade and Mr Mancassola, who held executive positions in several US airlines, says the MD-95 will eventually replace them.



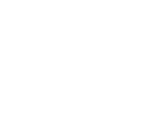
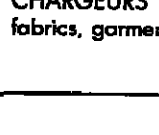
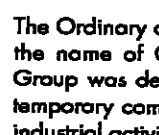
Chargeurs International changes its name to Chargeurs

On May 7, 1997, the Ordinary and Extraordinary General Meeting of Chargeurs International, chaired by Eduardo Malone, approved the accounts of the company for the 1996 fiscal year. The meeting voted to distribute a dividend of FF 7.00 payable in cash on June 25, 1997, plus a tax credit of FF 3.50 for eligible shareholders and renewed the terms of office of Philippe Giscard d'Estaing and Eduardo Malone.

During his presentation, Eduardo Malone drew particular attention to the following points of note in 1996:

- **Enhanced globalization:** the Group's international expansion moved up a gear with the start-up of production at two new factories in China (wool processing and garment interlining), the creation of industrial operations in Eastern Europe (wool-based fabrics) and the acquisition of interlining companies in North and South America.
- **Substantial reduction in debt:** debt was halved, down by FF 1.9 billion.
- **Profits confirmed:** FF 136 million

The Chairman emphasized that since the beginning of the year, Chargeurs International has concentrated its major efforts on refocusing its businesses, as well as on productivity and international expansion. These measures, backed by favorable exchange rates, suggest a promising outlook for 1997. Barring a downturn in this situation, the Group is therefore set to maintain its upward trend in earnings in 1997.



The Ordinary and Extraordinary General Meeting also voted in favor of changing the name of Chargeurs International to CHARGEURS. When the Chargeurs Group was demerged in June 1996, Chargeurs International was chosen as the temporary company name for the new unit grouping together the former Group's industrial activities.

CHARGEURS is specialized in four businesses: wool processing, wool-based fabrics, garment interlining and adhesive films for protection of industrial surfaces.

THE KOREA GOLDEN GATE FUND

1a, rue Thomas Edison

L-1445 LUXEMBOURG

R.C. B 50211

CONVENING NOTICE

The Shareholders are convened hereby to attend the ORDINARY MEETING of the Company, which will be held at the head office, on May 28, 1997 at 11.00 am.

AGENDA

1. Submission of the Management Report of the Board of Directors and of the Report of the Statutory Auditor.
2. Approval of the annual accounts as at December 31, 1996.
3. Discharge to the Directors and Statutory Auditor.
4. Re-election of the Directors and Statutory Auditor.
5. Miscellaneous.

Only the Shareholders registered in the Shareholders Register on May 1, 1997, will be authorized to participate at this Meeting.

If Shareholders are unable to attend, they could participate by Power of Attorney. This Power must be received by the Company not later than 5 days prior to the Meeting, at the following address:

The Korea Golden Gate Fund

PO Box 736

L-2017 Luxembourg

Resolutions at the Meeting of Shareholders will be passed by a simple majority of the votes of those present or represented.

THE BOARD OF DIRECTORS

The Financial Times plans to publish a Survey on Liechtenstein on Tuesday, June 10

For further information, please contact:

Lindsay Sheppard Tel: +44 171 573 3225 Fax: +44 171 573 3204 or John Rolley (Bancor) Tel: +41 22 731 1804 Fax: +41 22 731 9481 Ernst Joray (Schwanden) Tel: +41 55 644 3070 Fax: +41 55 644 3075 or your usual Financial Times representative

FT Surveys

Cassa di Risparmio di Verona Vicenza Belluno e Ancona
U.S. \$100,000,000
Floating Rate Depositary Receipts Due 1999
Notice is hereby given that the Rate of Interest has been fixed at 6.09375% and the interest payable on the relevant Interest Payment Date August 12, 1997 against Coupon No. 14 will be US\$15.73 in respect of US\$100,000 nominal of the Receipts and US\$1,557.29 in respect of US\$100,000 of the Receipts.
May 12, 1997, London
Citibank, N.A. Corporate Agency & Trust, Agent Bank CITIBANK

CONTRACTS & TENDERS



ROMANIA STATE OWNERSHIP FUND INVITATION TO NEGOTIATE

As part of the Romanian Government's privatization programme, the Romanian State Ownership Fund, acting in accordance with the privatization laws, is issuing an Invitation to Negotiate to all suitably qualified parties interested in the purchase of no less than 51 % of the shares of SC VENTILATORUL S.A.

Established in 1932, SC VENTILATORUL S.A. is located in Bucharest. The company's main activity consists in the manufacturing and trading of industrial fans.

According to the Articles of Incorporation and Statutes of the Company, as of June 30, 1996, the common stock amounts to ROL 16,012 million, consisting of 640,487 ordinary shares, each having a face value of ROL 25,000.

Procedure:

Through the present announcement, interested parties should record their interest in the above matter by contacting Societate Generale Finance Dezvoltare who has been retained by the State Ownership Fund as exclusive advisor in the aforementioned privatization process. Suitably qualified parties will be sent Information Memoranda against letters of confidentiality.

SOCIETATE GENERALE FINANCE DEZVOLTARE

Attn: Mr Frédéric BOBO Managing Director

Mr Eric CLAIREFOND Deputy Managing Director

Tour Societate Generale 17, cours Valmy 92972 Paris-La Defense Cedex

Tel: 33 1 42 13 30 29 Fax: 33 1 42 13 05 53

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SOCIETATE GENERALE FINANCE DEZVOLTARE

China Everbright achieves critical mass

Last Friday morning, China Everbright was known in Hong Kong as a small but ambitious arm of China's state council, with a few local subsidiaries and a patchy track record. By Friday evening, it had taken centre-stage in Hong Kong business - acquiring a strategic chunk of one of the territory's biggest, most profitable and politically sensitive companies.

The announcement by Citic Pacific, the Hong Kong arm of Beijing's flagship investment vehicle, that it would sell its 8 per cent stake in Hongkong Telecom, did not come as a surprise. Nor did the HK\$11.39bn (US\$1.47bn) price tag. The shock was that China Everbright was the buyer.

"It was a bolt from the blue," said the China analyst at one of the territory's biggest investment banks. "We knew they were ambitious, but this is in a different league," he said, pointing out that the combined capitalisation of the group's Hong Kong businesses is less than the price of the telecom stake.

The stunned reaction from many in the investment community underlines how rapidly China's business forces are rising and how Hong Kong provides the base for lift-off. Red chips have been dominating local business this year, as the mainland-backed groups raise funds in the territory and acquire stakes in many of its companies.

In the case of China Everbright, the rise is partly explained by its backing from China's state council, or cabinet. The state council

owns China Everbright's Holding company, which sits alongside Citic in its business portfolio.

While Citic remains the heavyweight, Everbright has been on the fast track since Mr Zhu Xiaohua took over as chairman in August last year.

As deputy governor of the People's Bank of China in the mid-1990s, he became a protégé of Mr Zhu Rongji, then bank governor, now senior vice-premier and the country's economic czar.

Prior to that, he worked at the Hong Kong branch of Xinhua, Beijing's de facto embassy, where he gained a feel for business.

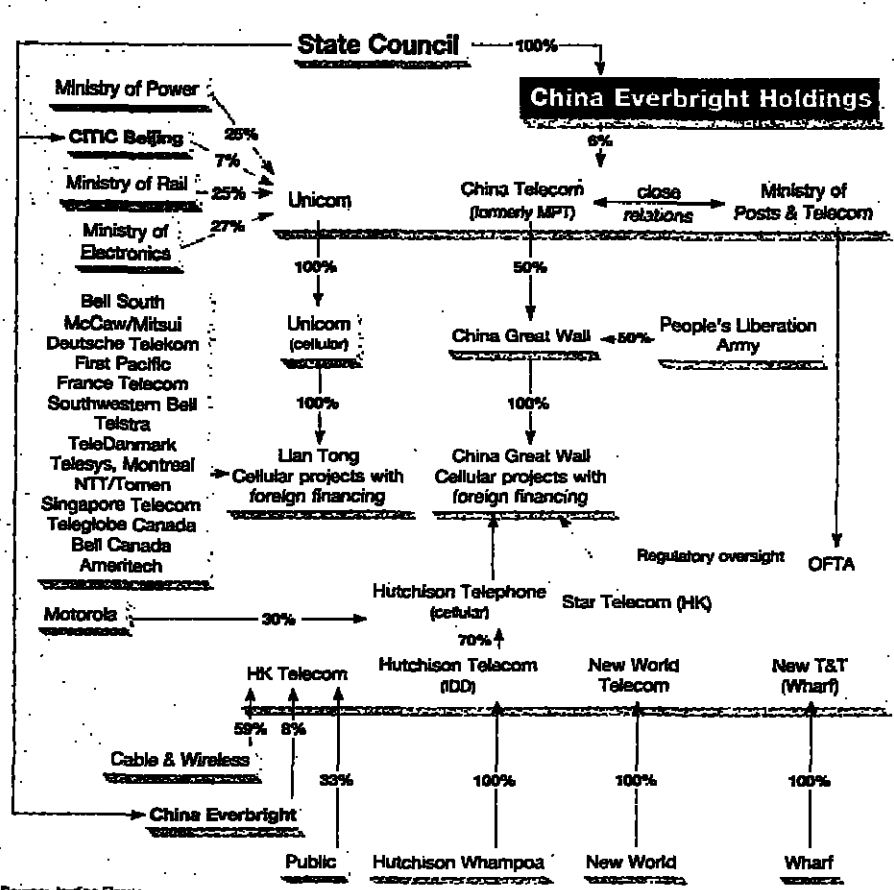
In an interview earlier this year, he spelled out his plans to re-make the company and put behind it a period of losses in the 1980s and early 1990s arising from ill-fated investments in property and securities.

Finance is being given priority, reflected in the purchase of a stake in National Mutual, the insurer. But there was a mention of technology - via its Everbright Technology subsidiary, one of the three Hong Kong-listed vehicles.

As for Hong Kong: "We should invest more here. We want to be active in finance and infrastructure," says Mr Zhu.

Investors have responded with enthusiasm, driving sharply higher the shares in the three listed businesses - China Everbright Technology, China Everbright International, and China Everbright IHD Pacific. But even the group's biggest backers were surprised by Friday's announcement.

Integration of Hong Kong and China telecommunication industries



"They have been anointed," said Mr John Mulcahy, managing director of W.I.Carr. "This was a decision to make Everbright a strategic Hong Kong player," added another investment banker. "We are seeing the birth of another Citic Pacific. They have clearly become a force."

Less clear is what the mainland manoeuvrings mean for Hongkong Telecom and what role its new investor will play. Everbright has marginal experience in the sector, with its interests limited to a 6 per cent stake in Unicom, China's fledgling second operator. That helped explain the surprise of Friday's announcement, but it also threw the spotlight on strategic considerations.

"This could be a position for a bigger deal," said Mr Lloyd Fischer, head of regional telecoms research at BZW. Others described it as a first step towards a broader restructuring.

According to many industry analysts, Cable & Wireless of the UK, the majority shareholder in Hongkong Telecom, still faces pressure to reduce its stake to a minority, partly to satisfy

FDA report on Myotrophin hits Chiron

By Tracy Corrigan in New York

Shares in Chiron, the US biotechnology company, fell \$1 to \$18 on Friday after a US Food and Drug Administration advisory committee found there was insufficient evidence to show the efficacy of Myotrophin, a treatment for Lou Gehrig's disease.

The stock later recovered somewhat to close at \$19, down 8%.

The FDA, which will make a ruling on the application by August, had requested that the committee examine the treatment in conjunction with its own review.

The FDA is not bound by the committee's findings. However, last week's rejection by the committee has severely reduced Myotrophin's chances of being approved, according to analysts.

The committee was instructed to examine only the evidence of the treatment's efficacy, while the FDA will consider broader issues, such as the availability of other treatments and the severity of the disease.

In two recent cases involving very serious diseases, the FDA has gone against the committee's findings.

The FDA committee decided by a vote of six to three that there was not substantial evidence from trials of the treatment's effectiveness.

Chiron and Cephalon, its co-developer, have indicated that they will not finance further trials.

Lou Gehrig's disease, which is also known as amyotrophic lateral sclerosis, affects the nervous system. There are about 25,000 sufferers in Europe and the US.

According to analysts, there is little effective treatment available, and little in the pipeline after an Amgen drug failed recent trials.

Cephalon, the smaller biotech company which developed Myotrophin and was more dependent on the success of the drug, saw more than a third of its market value wiped out on Friday, as the stock fell \$7 to \$13.

However, the disappointment had little impact on other biotechnology stocks. "It seems lately that the misfortunes of a single company haven't had broader ramifications," said Mr Paul Kelly, a biotechnology analyst at UBS Securities, noting the sector's increased maturity.

A few years ago, such incidents used to knock the whole sector.

Chiron, one of a small group of profitable biotechnology companies, is widely viewed as an industry leader, but has suffered a string of disappointments, including delays in manufacturing its whooping cough vaccine and the failure of its herpes vaccine in two important trials.

John Ridding

'He must have jumped' says Bre-X pilot

By James Kyrie in Balikpapan and Marissa Saragosa in Jakarta

"I heard a noise at the rear. It sounded as if something hit the helicopter. I heard the sound of wind rushing in," Mr Edy Tursono, an experienced Indonesian pilot, so recalled his first inkling something was wrong on what many claim - but some doubt - was the last flight of Mr Michael de Guzman.

In his first interview since the geologist's disappearance marked the beginning of the end for Bre-X Minerals' Busang gold fraud, Mr Tursono continued: "It took about four or five seconds to steady the plane. The denim jacket he had hung on the seat in front of him was still there. When I reduced speed I looked back and the engineer also looked back and the engineer said: 'Mike is not there. He's gone'."

"I did not think that Mike would go and jump but when Mike wasn't there I thought he must have jumped," Mr Tursono said on Saturday near the Borneo town of Balikpapan.

Neither he nor the engineer, Mr Andrian Malla, looked around in the instant that they heard the noise, Mr Tursono said, so neither of them saw Mr de Guzman open the door and jump. But the pilot maintained that it was impossible for Mr de Guzman to have fallen because he was wearing his seat belt.

Mr Tursono said the flight originated in Balikpapan at 9.10am. Also on board were Mr Andrian and another Bre-X geologist, Mr Rudy Vega. At Samarinda, a town near Busang, Mr de Guzman changed out of his shorts and put on trousers and a denim jacket over his T-shirt. Mr Vega stayed at Samarinda, and the other three took off at 10.13am for Busang.

Mr de Guzman sat next to the door on the back seat of the helicopter with his seat belt fastened; the engineer was next to the pilot in the front seat, just a few feet away.

After seeing at 10.30am that Mr de Guzman was missing, the pilot flew down to about 150ft and circled for 25 minutes but could see no trace of him. Mr Tursono punched the satellite receiver to make sure the location was registered.

"Had the pilot not done that, we would never have found the body," his boss, Mr Peter van Veen, general

Mr Edy Tursono maintained that it was impossible for geologist Mr Michael de Guzman to have fallen from the helicopter because he was wearing his seat belt

manager of Indonesia Air Transport, said in separate interview. Mr Tursono radioed to the IAT office in Jakarta, which instructed him to return to Samarinda. At Samarinda, airport officials and police sorted through Mr de Guzman's belongings. In his suitcase, they found a wallet, a watch, a mobile phone and a ring.

But it was only eight hours later that they found a several-page suicide letter. Mr van Veen said Mr Tursono was in shock and had forgotten about the letter.

During the flight, Mr de Guzman tapped on the pilot's shoulder, showed him an envelope and placed it under the seat. Mr van Veen said this was standard practice. The message was that the pilot should post the letter when he returned to the airport.

PUBLIC NOTICES

OFFICIAL NOTICE

The loss has been reported to us of the following four Commodity Warrants:

No. 580,905 covering 163 bags Cocoa Beans	Marks ANCE NIGERIA - Weight gross 10,137 Kgs
No. 580,906 - 163 bags Cocoa Beans	Marks ANCE NIGERIA - Weight gross 10,134 Kgs
No. 580,907 - 146 bags Cocoa Beans	Marks ANCE NIGERIA - Weight gross 9,081 Kgs
No. 580,930 - 144 bags Cocoa Beans	Marks ALFA NIGERIA - Weight gross 8,892 Kgs

We have been requested to issue replacement/duplicate warrants. Anyone claiming title to these goods is invited to enter protest by means of a Summons against the delivery of the said material or the issuing of substitute warrants.



ROMANIA STATE OWNERSHIP FUND INVITATION TO NEGOTIATE

As part of the Romanian Government's privatization programme, the Romanian State Ownership Fund, acting in accordance with the privatization laws, is issuing an Invitation to Negotiate to all suitably qualified parties interested in the purchase of no less than 51 % of the shares of SC LAMINORUL S.A.

Established in 1929, SC LAMINORUL S.A. is located in the city of Braila, some 220 km East of Bucharest. The company's main activity consists in the manufacturing and trading of rolled steel products and some of their by-products.

According to the Articles of Incorporation and Statutes of the Company, as of June 30, 1996, the common stock amounts to ROL 83,495 million, consisting of 3,339,787 ordinary shares, each having a face value of ROL 25,000.

Procedure: Through the present announcement, interested parties should record their interest in the above matter by contacting Societate Generale Finance Dezvoltament who has been retained by the State Ownership Fund as exclusive advisor in the aforementioned privatization process. Suitably qualified parties will be sent Information Memoranda against letters of confidentiality.

SOCIETATE GENERALE FINANCE DEZVOLTAMENT
Attn: Mr Frédéric BOBO Managing Director
Mr Eric CLAIREFOND Deputy Managing Director

Tour Societate Generale 17, cours Valmy 92972 Paris-La Défense Cedex
Tél: 33 1 42 13 30 29 Fax: 33 1 42 13 05 53

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As part of the Romanian Government's privatization programme, the Romanian State Ownership Fund, acting in accordance with the privatization laws, is issuing an Invitation to Negotiate to all suitably qualified parties interested in the purchase of no less than 51 % of the shares of CABLUL ROMANESC S.A.

Established in 1926, CABLUL ROMANESC S.A. is located in the city of Ploiesti, some 60 km North of Bucharest. The company's main activity consists in the manufacturing and trading of steel drag cables, aluminium ropes and non-insulated steel aluminium mains for electricity transport.

According to the Articles of Incorporation and Statutes of the Company, as of June 30, 1996, the common stock amounts to ROL 13,112 million, consisting of 524,470 ordinary shares, each having a face value of ROL 25,000.

Procedure: Through the present announcement, interested parties should record their interest in the above matter by contacting Societate Generale Finance Dezvoltament who has been retained by the State Ownership Fund as exclusive advisor in the aforementioned privatization process. Suitably qualified parties will be sent Information Memoranda against letters of confidentiality.

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As part of the Romanian Government's privatization programme, the Romanian State Ownership Fund, acting in accordance with the privatization laws, is issuing an Invitation to Negotiate to all suitably qualified parties interested in the purchase of no less than 51 % of the shares of ZAMUR S.A.

Established in 1893, ZAMUR S.A. is located in the city of Targu-Mures, some 350 km North of Bucharest. The company's main activity consists in the manufacturing and trading of beet sugar, granulated sugar and subproducts.

According to the Articles of Incorporation and Statutes of the Company, as of June 30, 1996, the common stock amounts to ROL 24,232 million, consisting of 969,294 ordinary shares, each having a face value of ROL 25,000.

Procedure: Through the present announcement, interested parties should record their interest in the above matter by contacting Societate Generale Finance Dezvoltament who has been retained by the State Ownership Fund as exclusive advisor in the aforementioned privatization process. Suitably qualified parties will be sent Information Memoranda against letters of confidentiality.

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Established in 1974, ICNUT TULCEA SHIPYARD S.A. is located in the city of Tulcea, 300 km North-East of Bucharest. The core activities of the company are shipbuilding, ship repairs and metal constructions.

According to the Articles of Incorporation and Statutes of the Company, as of June 30, 1996, the common stock amounts to ROL 119,420.2 million, consisting of 4,776,808 ordinary shares, each having a face value of ROL 25,000.

Procedure: Through the present announcement, interested parties should record their interest in the above matter by contacting Societate Generale Finance Dezvoltament who has been retained by the State Ownership Fund as exclusive advisor in the aforementioned privatization process. Suitably qualified parties will be sent Information Memoranda against letters of confidentiality.

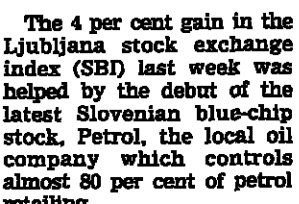
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EMERGING MARKETS



It ordered that non-residents must conduct all

While the Bank of Slovenia has defended its actions on the grounds of

The price volatility, illiquidity and limitations of the Ljubljana stock exchange have been under-

Mr James Oates, director of eastern and central European equities at UBS, the Swiss bank, warns that "another couple of years of capital starvation and a lot of Slovenian companies will not be competitive"

have enormous scope to gear up their balance sheets. Bankers suggest Russia could quickly become one of

But some analysts believe subsequent eurobonds will be slower to hit the markets, with few deals likely this year. The tax privileges attached to the sovereign eurobond are unlikely to apply to other issuers com-

US investment bank Goldman Sachs, which briefly entered the Russian market in the early 1990s before quitting in frustration, has signalled its return by winning a mandate to advise Gazprom on how to raise



Mr. Alexander Popov.

"But if a bank failed, it would send margins back into the heavens," he says. "That is why, the central bank has a very important role to play in regulating the

Index	Week on week movement		Month on month movement		Year to date movement		
	Actual	Percent	Actual	Percent	Actual	Percent	
World (449)	175.53	+2.12	+1.22	-0.05	-0.03	+15.41	+9.63
Latin America							
Argentina (22)	121.94	+1.75	+1.46	+1.28	+6.35	+14.81	+13.82
Brazil (24)	383.04	+0.48	+2.78	+11.49	+3.37	+82.01	+35.25
Chile (19)	239.65	+0.76	+1.35	+0.42	+3.42	+21.12	+9.12
Colombia (13)	239.65	+2.56	+1.08	+0.93	+4.32	+86.15	+38.06
Mexico (27)	93.24	+1.28	+1.40	+0.73	+0.79	+11.58	+14.15
Peru (12)	1,255.05	-10.17	-0.80	-1.12	-0.89	+947.85	+24.61
Venezuela (8)	18.18	+0.18	+1.54	+0.84	+0.44	+1.44	+1.44
Latin America (119)	176.65	+0.34	+2.08	-1.32	+2.95	+35.16	+24.50
Europe							
Czech Rep.(14)	87.13	-3.58	-3.94	-11.21	-11.40	-17.14	-16.44
France (20)	189.21	+0.82	+2.30	+1.30	+7.36	+65.45	+28.55
Poland (25)	334.43	-3.88	-1.15	-11.44	-3.31	-9.32	-2.71
Potential (13)	163.56	+8.80	+3.26	+22.39	+13.89	+37.38	+25.57
South Africa (30)	146.24	-0.32	-0.22	+1.05	+0.40	+11.56	+12.69
Spain (14)	162.47	+3.42	-1.22	-5.02	-2.74	+21.94	+14.44
Europe (134)	137.93	+1.94	+1.42	+3.26	+2.43	+19.59	+16.95
Asia							
China (27)	66.49	+2.45	+3.83	+11.11	+20.06	+10.01	+17.72
Indonesia (2)	19.17	+4.57	+7.27	+4.95	-0.01	-1.45	-1.45
Korea (23)	78.98	-3.34	-4.16	-1.16	-5.00	-2.23	-2.75
Malaysia (24)	238.83	+1.88	+0.79	-17.97	-7.00	-41.59	-14.83
Pakistan (31)	65.86	-0.07	-0.11	-3.52	-5.07	+7.41	+12.67
Philippines (18)	261.45	+1.45	-21.68	-1.37	-50.58	-16.88	-16.88
Taiwan (13)	201.65	+1.12	+0.55	-7.13	-3.42	+16.21	+8.74
Thailand (29)	115.48	-10.13	-8.07	-21.08	-15.44	-39.68	-25.58
Asia (193)	204.57	+0.37	+0.18	-9.15	-4.29	-13.08	-5.98

[illegible]

The foregoing summary of the Collateral is for general information purposes only and is qualified in its entirety by the detailed contractual arrangements referred to above. Neither the Trustee, the Auctioneer or any Nonholder makes any representation, either express or implied, as to the status of CAI or the CAI Shares, or respecting the assets, liabilities, financial condition or prospects of CAI, the CTT Operating Companies or as to any other matter whatsoever. The Collateral

per U.S. \$10,000 Note and U.S. \$1,531.74
per U.S. \$100,000 Note, payable on 12th
August, 1997.

Listed on the Luxembourg Stock Exchange
Union Bank of Switzerland
London Branch

8th May, 1997

per annum with an interest amount of US \$1,659.39 per US \$30,000 principal amount of Notes payable on October 14, 1997.

First Trust of New York, N.A.
May 2, 1997 **Agent Bank**

BNP Banque Nationale de Paris
(Luxembourg) S.A.

The Law Debenture Trust Corporation plc extending entitlement to payment of principal and interest on deposits with
Cariplo-Cassa di Risparmio

JPMorgan

<p>Republic of Italy US\$1,500,000,000 Floating rate notes due 2002</p> <p><i>Notice is hereby given that the notes will bear interest at</i></p>	<p>The Republic of Panama US\$417,402,000 Floating rate serial notes 1996-2002</p>
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1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466
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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

May 9	Closing mid-point	Change on day	Day's bid/offer	Day's bid/offer	One month	Three months	One year	Bank of England
Europe								
Austria (Sch)	18.2615	-0.175	92.2	108	10.5567	18.2444	18.246	3.3
Belgium (Bfr)	56.6145	-0.585	67.9	606	57.2780	56.4580	56.458	3.3
Denmark (DKr)	10.4382	-0.042	55.1	455	10.3953	10.4108	10.4108	2.8
Finland (Fmk)	8.2836	-0.076	78.1	681	8.3050	8.2550	-	-
France (FFr)	9.2516	-0.084	46.9	509	9.3691	9.2254	9.2274	3.1
Germany (DM)	2.7422	-0.025	41.0	455	2.7770	2.7343	2.7347	3.1
Greece (Dr)	480.947	-3.322	741	152	441.583	435.744	-	-
Italy (L)	1.0855	-0.002	64.5	655	1.0752	1.0643	1.0666	-0.1
Ireland (Ir£)	27.8141	-1.826	652	623	27.4687	27.0835	27.0511	-0.8
Luxembourg (Lfr)	56.6145	-0.585	67.9	606	57.2780	56.4580	56.458	3.3
Netherlands (Gld)	3.0842	-0.029	82.9	864	3.1227	3.0757	3.0757	3.3
Norway (Nkr)	11.4080	-0.072	104	176	11.5128	11.3758	11.3758	3.2
Portugal (Esc)	275.880	-2.471	678	578	273.188	275.309	275.309	0.7
Spain (Pta)	163.809	-1.789	857	820	163.420	163.320	163.320	0.8
Sweden (Skr)	12.4305	-0.044	213	380	12.5175	12.3698	12.4009	2.1
Switzerland (Sfr)	2.3130	-0.028	116	144	2.3510	2.3022	2.3037	4.9
UK	1.0000	-0.018	107	115	1.0200	1.0000	1.0000	2.3
USA	1.6145	-0.011	107	115	1.6200	1.6100	1.6100	2.4
EURO	1.6145	-0.011	107	115	1.6200	1.6100	1.6100	2.4
AMERICA								
Argentina (Piso)	1.6187	-0.0017	182	182	1.6275	1.6147	-	-
Brazil (R)	1.7232	-0.004	237	287	1.7328	1.7225	-	-
Canada (Cdn)	2.2446	-0.008	486	508	2.2545	2.2404	2.2438	3.3
Mexico (New Pes)	12.7989	-0.048	917	981	12.8710	12.7388	-	-
USA	1.6145	-0.011	107	115	1.6200	1.6100	1.6100	2.4
EURO	1.6145	-0.011	107	115	1.6200	1.6100	1.6100	2.4
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Canada (Cdn)	2.2446	-0.008	486	508	2.2545	2.2404	2.2438	3.3
Mexico (New Pes)	12.7989	-0.048	917	981	12.8710	12.7388	-	-
USA	1.6145	-0.011	107	115	1.6200	1.6100	1.6100	2.4
EURO	1.6145	-0.011	10					

2 FUKUOKA

INTERNATIONAL LINKS • by Bethan Hutton

Seeking symmetry with the Asian tigers

Commercial and cultural ties to its neighbours will raise Fukuoka's status worldwide

The citizens of Fukuoka are very proud of their cosmopolitan heritage. They point to a large golden seal, unearthed in the area and said to have been brought by an envoy of a Chinese emperor of the Han dynasty in AD57, as evidence of a long history of pan-Asian links. And, as any Fukuokan can tell you - and probably will - the city is closer to Pusan or Shanghai than it is to Tokyo.

Of course, that history of close cross-border ties has been chequered. It was travellers from China and Korea who, passing through the port of Hakata (the old name for Fukuoka), introduced some of the foundations of Japanese culture - tea, Buddhism, and ceramics - but the Shogunate's seclusion edicts put paid to Fukuoka's

role as a gateway to Asia. Japan was all but closed to foreigners from the mid-17th to mid-19th centuries and, when the country was reopened, the focus of its international relations had switched to the US and Europe.

Now, however, the tide is turning again. Fukuoka has recently woken up to the fact that its proximity to Japan's increasingly dynamic neighbours in the Asia-Pacific region creates huge opportunities.

"In 1987, Fukuoka city decided its goal was to become an international hub for relations with Asian countries," says Mr Junichiro Nakashima, director of the city's international planning section. Since then, the local government has been promoting that goal.

Fukuoka has gone through all the usual means of establishing international links - it has sister-city relationships or other established



Hakata port: central to Fukuoka's ambitions to develop its role as a north-east Asian trade hub

ties with nine cities in Asia, Europe, the US and New Zealand - but it has also come up with some novel ideas of its own. And although the main aim is clearly commercial, in terms of attracting conferences and trade to the city, Fukuoka has also taken trouble to promote cultural links.

September in Fukuoka is Asia Month, when residents and guests from other Asian countries put on shows, cine-

mas run Asian films, and there is a grand parade with Asian-themed floats through the city centre.

Schoolchildren from other Asian countries are invited to join an exchange programme with local pupils.

The number of Asian students at Fukuoka's universities has rocketed in recent years, and an Asian museum is under construction.

Fukuoka's growing number of foreign residents helps

maintain a year-round image of the city as cosmopolitan and pan-Asian - even the subway has signs in English, Chinese and Korean.

There are flights from Fukuoka airport to 23 cities around the Asia-Pacific region, as well as all the big Japanese cities. Flight times to destinations in Korea and China beat flight times from Tokyo by about an hour or so, but what really makes the difference in travelling

time and stress levels is the closeness of Fukuoka airport to the centre of town: it is less than 15 minutes by frequent and efficient subway, compared with one or two hours from Narita airport to central Tokyo, depending on means of transport and time of day.

As a result of a building boom in the late 1980s and early 1990s, Fukuoka is now generously supplied with hotels, stadiums and conference centres large enough to cope with almost any event.

Last November the Asia-Kyushu Regional Exchange Summit brought together representatives of 27 Asian regions to discuss sustainable economic development and environmental problems in Asia. In 1995, Fukuoka hosted the Universiade, or student olympic games. This month's Asian Development Bank meeting will be the largest and most prestigious international gathering so far.

Large-scale events attract the most publicity but there is plenty of activity at a level

that can touch local people more directly. Dozens of small societies promote different kinds of international exchange or cultural activities. The Fukuoka International Exchange Foundation (FIEF), set up by the prefectural government, arranges events for both Japanese natives and foreigners living in the region. Mr David Vroland, an Australian co-ordinator at FIEF, who has lived in the area for three years, last year arranged a tour for an Australian aboriginal dance troupe.

While the promotion of convention business and cultural links has been very successful to date, inward investment and tourism have been slower to take off. The city and prefectural governments are no doubt hoping that if enough people visit Fukuoka for a conference, some will come back to establish subsidiaries - or just for a holiday.

While Fukuoka is a provincial city that will never be as truly cosmopolitan as Hong Kong or Singapore, it

Port	Distance (km)
Yokohama	833
Osaka (Kansai)	608
London	10,257
Shanghai	502
Beijing	708
Sydney	4,545
Dubai	5,971
Hamburg	11,057

does have a role as a north-east Asian centre for trade and international events. It has all the advantages of Japan's advanced stage of development, infrastructure and communications, but none of the drawbacks of a huge metropolis such as Tokyo.

CULTURAL IDENTITY • by Michiyo Nakamoto

Mini-Tokyo with a mind of its own

The prefecture wants its people to do more than slavishly follow the capital's lead

Fukuoka is a region that is struggling to maintain its cultural identity.

In the past, its proximity to China made it a centre for cultural development as Japan avidly absorbed Chinese influence in everything from art to literature. Government missions to China set off from Fukuoka, which some scholars believe is the site of Yamatai, the ancient kingdom referred to in the Chinese chronicle Wei Zhi.

Its history as a bridge between Japan and Asia has nurtured an open-mindedness towards the outside world. "The people of Fukuoka are very accepting of new things," says Mr Toru Koga, cultural news editor of the Nishi-Nippon Shinbun, a regional daily.

A corollary is cultural inventiveness. "Many new things are born in Fukuoka," says Mr Koga.

Oppekepi, a style of theatre in which the performer satirises the world about him, originated in Fukuoka in the late 19th century.

Festivals that are still leading national attractions, such as the Hakata Dontaku held in early May, reveal

both the influence of foreign cultures and the distinctive, fun-loving character of the local people. Apart from the colourful parades and lively music, the Dontaku, which attracts the largest number of festival-goers in the country, features wandering participants who stop anyone they come across on the street to tell them a pun. The name Dontaku is said to derive from the Dutch word for Sunday, Zondag.

Today, however, the propensity to look outside for cultural inspiration means that all eyes are turned towards Tokyo.

"Fukuoka is a region where the influence of Tokyo is very strong. Young people in particular look towards Tokyo so that it seems that they have lost their own cultural identity," says Mr Hiroshi Tamari, manager of the Fukuoka office of Yoshimoto Kogyo, an agency that trains and manages a wide variety of performers.

The cultural invasion from Tokyo is evident in the forms of entertainment Fukuoka now provides. Gaidan Shiki, a dramatic troupe boasts high attendances in Fukuoka; it originated in Tokyo. The city's Dome, a covered stadium, brings in people from far and wide to enjoy not only baseball games but also musical performances: it is modelled on the Tokyo Dome.

"We in Fukuoka tell each other, with a hint of self-criticism, that we have become like a mini-Tokyo," laments Mr Koga. "The local dialect, for example, is disappearing very quickly."

Unlike natives of Osaka, where the local dialect is proudly and very conspicuously spoken, Fukuoka people tend only to use their own language in private.

But Fukuokans are not just passive receptors of outside influences.

The region itself has given birth to nationally famous musicians, artists and writers, many of whom have established new genres. "Fukuoka people are very



Dontaku festival: shows Fukuoka's diverse cultural heritage

expressive," says Mr Koga. Yoshimoto Kogyo, the leading Osaka entertainment company, has set up an office in Fukuoka in order, Mr Tamari says, to find new musical talent.

The hope for many Fukuokans is that given the abundance of naturally expressive, talented people in the region, they can develop their own distinct culture.

Many look to Asia for inspiration. "We want to create a distinctive culture," says Mr Koga. "Being a gateway to Asia is one way to do so."

Public leaders are actively promoting Fukuoka's links to Asia not just through formal events such as the 1997 Annual Conference of the Asian Development Bank, which is being held in Fukuoka this week, but also through cultural exchanges and other programmes.

Fukuoka Daiichi Hawks, the local baseball team, recently appointed Sadaharu Oh, a former slugger with the Tokyo-based Yomiuri Giants

as manager. Mr Oh is a national hero of Chinese descent. Daiichi, the retailer that owns the Hawks, is said to have been keen to promote the region's Chinese links as a way of gaining a foothold in the promising Chinese market.

Arguably the most important key to the development of a distinct Fukuoka culture is the dynamism of the local economy. The buoyant economy has supported the construction of leisure facilities such as the Dome and the Hakata-za, the first large theatre in the city for traditional performing arts, and of conference halls, hotels and shopping malls.

"Fukuoka is becoming a central city in Japan," notes Mr Tamari.

It might have a tendency to adopt outside influences rather than protect its own culture but in the long-term this might not matter. "By accepting influences from the outside I believe it will create a unique mixture that is its own," says Mr Tamari.

THE FOREIGN COMMUNITY • by Bethan Hutton

Temperature rises in melting pot

Sometimes, all the talk of cosmopolitanism seems to have a hollow ring

Fukuoka's push for internationalisation over the past few years means more foreigners are coming to the area to work or study, or even put down permanent roots.

Foreign residents are hardly a novelty - there have been Chinese and Korean residents in Kyushu for hundreds of years, and Fukuoka, as a key trading port, has been home to many of them - but their current numbers and variety are unprecedented.

The foreign population of Fukuoka city has expanded rapidly, from 7,631 in 1980 to 13,351 by the end of 1995, while the foreign population of the prefecture as a whole had grown to more than 36,000 by the end of last year. By far the majority of these - nearly 24,000 - are Korean nationals.

The past few years, however, have seen a decline in the number of Koreans and a growth in the Chinese population. Both Koreans and Chinese tend to be long-term residents. Europeans, Australians and north Americans, on the other hand, are more likely to be shorter-term students, English teachers or employees on temporary transfer.

Mr Li Xianzhong, chairman of the Fukuoka Overseas Chinese Residents Association, says that Chinese immigrants are following patterns found all over the world: the first generation most often run restaurants, but their children grow up to be doctors, accountants and computer specialists. They are also integrating into Japanese society, even to the extent of speaking Japanese at home, and marrying Japanese people.

According to Mr Li, the majority of overseas Chinese in Fukuoka eventually take Japanese nationality. Japa-

nese passports are more welcome internationally, he points out.

Koreans, on the other hand, are mainly classed as permanent residents. Many do not take Japanese citizenship, even if they and their parents were born in Japan. This means they can be subject to bureaucratic - and sometimes degrading - discrimination: the government only recently agreed to phase out regular fingerprinting of permanent residents. Non-Japanese citizens are barred from long-term "career-track" posts within local government, and are discriminated against by many larger companies.

Many still prefer not to hire non-Japanese employees

Despite Fukuoka's international image, local foreign residents say that racial bias is no less prevalent than anywhere else in Japan.

The people of Fukuoka might be happy with the theory of internationalisation and the festivals and conferences that are its public face, but many of them still prefer not to let an apartment to a non-Japanese tenant, or hire a non-Japanese employee.

Local authorities are trying to improve the lot of the immigrant, however. The Fukuoka International Exchange Foundation runs an advisory centre that offers help with employment and immigration problems and provides information on Japanese law. It also publishes newsletters in English and various other languages.

Last month, another source of information for foreigners was launched: Love FM, a foreign-language radio station based in central Fukuoka. It broadcasts mainly in English, but also has programmes in Korean and Chinese and public ser-

vices announcements in other Asian and European languages.

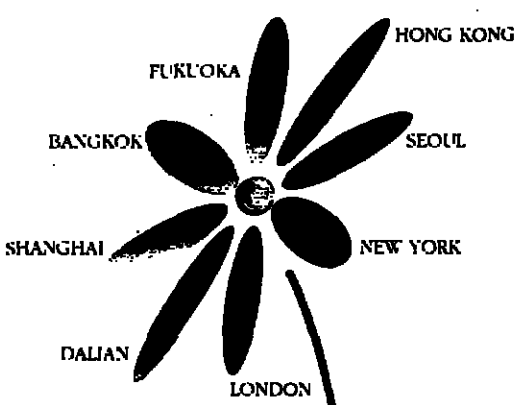
The government started to issue licences to foreign-language broadcasters two years ago. The first station opened in 1995 to coincide with an Apec meeting in Osaka, the second in Tokyo in April 1996, and the third, Love FM, has broadcast in time for this week's Asian Development Bank conference in Fukuoka.

Unlike its counterparts in Tokyo and Osaka, Love FM is trying to keep a local identity. It has recruited mainly foreigners who have been resident in Fukuoka for some time, rather than professional DJs from outside the region. It also puts less emphasis on music than the other two stations. "We want to provide useful information for foreign residents," says Mr Daisaku Hata, managing director.

Despite such close targeting, the majority of Love FM's listeners are Japanese. This might only be a good thing: there seems to be a need to educate the indigenous population. Ms Yon-soo Kwon, a Korean DJ at Love FM and a long-term resident of the city, has noticed the increasing cosmopolitan mix of people on the streets but says that attitudes have not necessarily changed.

"I don't think Fukuoka is less prejudiced compared with other cities in Japan," she says. Ms Kwon does believe, however, that it is an easier place to live. The many similarities in culture and language between Kyushu and southern Korea help Koreans feel at home, she says. Even the local delicacy - spicy fish roe - is also a favourite in Pusan.

For foreign visitors or residents, Fukuoka may offer a more accessible introduction to Japanese culture and society than can easily be found in a city like Tokyo, while still providing the support and services needed by non-Japanese residents, such as an international school.



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PROFILE The Toyota Kyushu plant

Looking for local deals for wheels

The car maker has yet to build a network of suppliers native to the region

Toyota makes cars all over the world, but it is less than five years since it opened its first Japanese plant outside its stronghold in Aichi prefecture.

The Toyota Motor Kyushu assembly plant in Fukuoka, which opened in December 1992, is Toyota's most

modern factory, making Chaser and Mark II cars for the domestic market, as well as some parts such as bumpers and fuel tanks for other models. It can produce up to 200,000 cars annually.

Toyota's plans for operations in Kyushu go back a long way: it has

owned the site of the current plant for more than 25 years. Manufacturing was initially delayed by the first oil shock of 1973. Plans for production were reactivated in the late 1980s, however, when predictions of a labour shortage in central Japan made Toyota turn to its vacant plot in Kyushu.

There were fewer large manufacturers competing for staff in Kyushu but Toyota still found itself having to transfer workers to Kyushu from its other locations.

"Because Kyushu has mostly raw materials-based industries, it did not have so many skilled workers for processing and assembly industries," says Mr Yuzuru Mamizuka, senior managing director at the Kyushu plant. "However, there are new graduates from Kyushu



The plant: local skills shortages mean that it has had to be adapted for female and older workers

universities who have technical skills. It is not a bad location for recruiting engineers."

The plant was designed so that women and older

people could work on the production lines as easily as young men, so widening the pool of suitable staff.

The level of automation is lower than at the previous

generation of Toyota plants, but still ensures that workers are relieved of the heaviest and most tedious work - they are assisted by the robots, rather than the

other way round.

One of the characteristics of the Japanese manufacturing system is a network of long-term suppliers that works in symbiosis with the manufacturer itself.

When Toyota established the Kyushu plant, it made sure that it would be able to obtain locally some of the parts that are difficult or expensive to transport across long distances. However, a complete network of local suppliers has yet to grow up around the plant.

"It requires time," says Mr Mamizuka, "possibly even 10 or 20 years."

After taking 20 years to open the plant, it would seem that Toyota is willing to wait.

Bethan Hutton

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ECONOMY • by Michio Nakamoto

The provincial pioneer

The region can be seen as setting Japan's economic agenda as well as following it

With a gross domestic product of ¥17,780bn, (¥17,780bn) and two leading cities in Fukuoka and Kitakyushu, Fukuoka prefecture is recognised by many as the economic centre of Kyushu, which lies to the south of the main island of Honshu.

In Fukuoka city, construction work will add to those landmarks, such as the Dome all-weather stadium and the Canal City retail complex, that have made Fukuoka a magnet for young people in the region.

On the waterfront, several vast development projects are taking shape. A centre-

piece is an artificial island in the middle of Hakata Bay. The island will incorporate residential areas, a science park, bird sanctuary and marina, and will provide greater port capacity.

Meanwhile, in Kitakyushu, a rival metropolis to the north, the building of the city's own multi-purpose dome and artificial island has begun.

All this construction work suggests an even more dynamic Fukuoka in the years ahead. Business leaders explain that part of the reason for the economic buoyancy is relative immunity to the collapse in Japanese assets prices.

Encouraged by a boom in asset prices in the 1980s, bankers in areas such as Tokyo and Osaka used property as collateral for a large

number of loans. When prices subsequently collapsed, they were left with bad debts. Kyushu, in contrast, did not experience high asset-price inflation and was therefore less vulnerable when the slump came. "Bad loans are a thing of the past in Kyushu," says Mr Tatsuta Goto, chairman of the Fukuoka Chamber of Commerce and Industry and chairman of Nishi Nippon Bank.

At the same time, Fukuoka is benefiting from modern manufacturing plant. "As large Japanese companies have restructured and have moved to position their manufacturing activities at the most efficient facilities, many factories have been closed in eastern Japan. But manufacturing facilities in Kyushu were built relatively recently so they are new and

have been expanded," points out Mr Hiroshi Morimoto, director of research at the Kyushu Economic Research Centre.

Nissan Motor has closed its plant in Zama, just outside Tokyo, and moved production to its state-of-the-art facility in Fukuoka.

Another reason for Fukuoka's economic vitality is its proximity to the growing economies of Asia. According to Mr Atsushi Kimura, manager of the chamber of commerce division of the prefectural government office, this increases its attractiveness to companies keen to exploit new markets. For example, semiconductor manufacturers based in Fukuoka are able to carry out specialised work in Japan and complete assembly in south-east Asia.

Geographical links to the

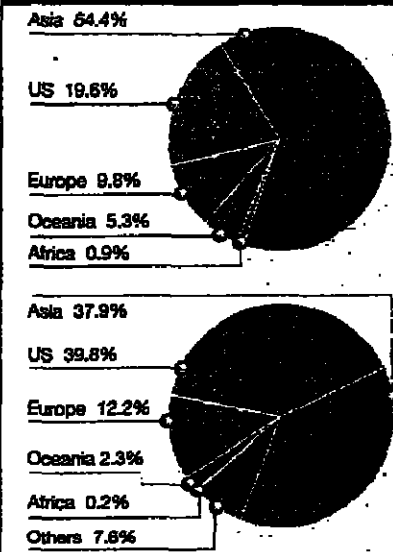
rest of Asia are helping to clinch big business deals. Samsung and Daewoo, the Korean conglomerates, are setting up offices in Fukuoka. There is hope that a new Samsung car factory in Pusan, just across the Sea of Japan, will look to procure components from Kyushu - where the presence of big Toyota and Nissan factories has led to the growth of car parts suppliers.

Small and medium-sized companies, regional banks and government bodies based in Fukuoka, have all been setting up offices in Asian countries.

Meanwhile, a growing number of tourists from neighbouring Asian countries has increased spending at leisure parks, shopping malls and other attractions.

The business and cultural exchanges that have devel-

International trade 1994



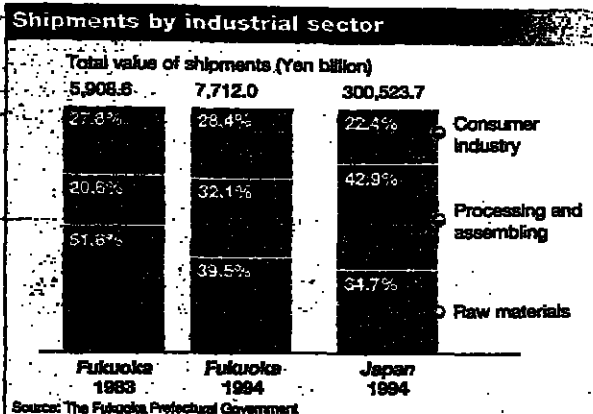
Total imports 858.2 Yen billion

Food	22.4%
Machinery and equipment	17.3%
Raw materials	12.9%
Mineral fuels	8.5%
Chemical products	4.5%
Metallic mining and waste	1.9%
Textiles	0.3%
Others	31.2%

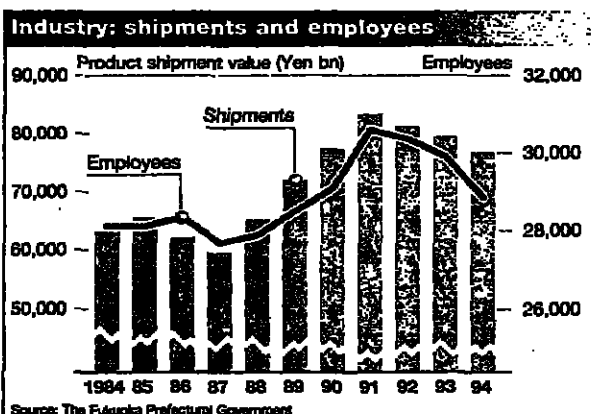
Total exports 746.6 Yen billion

Machinery and equipment	60.3%
Metallic and steel products	25.6%
Oil and chemicals	9.2%
Non-metallic mining and products	2.4%
Animals/plants and their products	1.7%
Others	0.8%

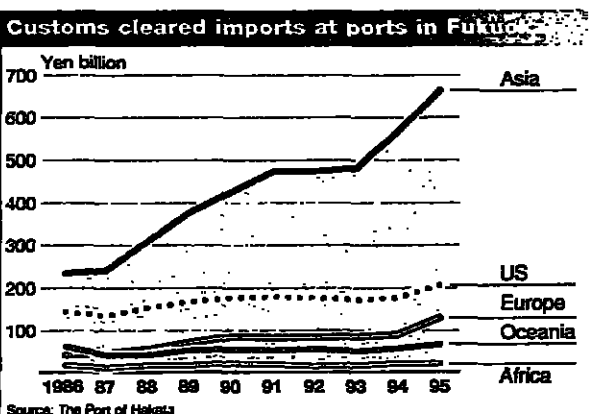
Source: Fukuoka Prefecture Trade Statistics



Source: The Fukuoka Prefecture Government



Source: The Fukuoka Prefecture Government



Source: The Port of Hakata

SMALL BUSINESSES • by Bethan Hutton

Noodle sellers out, chip makers in

New government initiatives are encouraging more start-ups in the high-tech sector

Fukuoka has a reputation as a place where new businesses thrive. Listing on the Fukuoka stock exchange has been the first step to national success for a number of companies. The best known, however, are restaurant chains and other service sector companies; in an area where software and high-tech industries are seen as the future, local authorities are hoping to change that emphasis.

One statistic that worries them is that Kyushu accounts for just 0.9 per cent of all patents registered in Japan - well below the proportion to be expected for its share of the population.

Accordingly, the Fukuoka prefectural government has announced its plan to turn Fukuoka into another Silicon Valley.

Some of the strategy is fairly standard - science and business parks, long-term loans for scientific-based venture businesses. Four science parks have already been established in the prefecture. More grandiose, however, is the Northern Kyushu Science Cities Development Plan, which aims to link all the higher education institutes and research centres in Fukuoka and six other cities to form a high-tech network.

Traditionally in Japan

commerce and academia are seen as two separate worlds. Kyushu, which has an abundance of educational establishments, wants them to converge. The first thing to do is to promote exchanges between academic circles and research institutes and businesses," says Mr Seichi Tanaka, of Fukuoka's new industry and technology division.

Fukuoka has the second highest concentration of students in the country, after Kyoto, and many of them are at specialist technological or engineering universities and colleges - ideal material for building a Japanese Silicon Valley. However, a high proportion of graduates end up looking for work on Japan's main island of Honshu, where the largest companies are based.

Similarly, many of Fukuoka's brightest young people go away to Japan's most prestigious universities, concentrated in Tokyo and Kyoto. After graduation, they generally settle away from their home towns.

To encourage the process known locally as "u-turn" - coming home to Kyushu after working or studying elsewhere - a special scheme has been set up. Under it, postgraduate entrepreneurs aged under 35 are offered funding of ¥15m for two years, and space in an "incubator" laboratory, as well as help in establishing a company.

The prefectural government is also investing directly in small venture businesses in high-tech

sectors. A driving force behind all these projects is the prefectural governor, Mr Wataru Aso, who was a senior bureaucrat in the Ministry of International Trade and Industry before becoming governor two years ago. One of his first acts was to implement a policy of venture business promotion, and double the 10-year investment budget to ¥10bn.

This year, the prefecture has ¥700m to lend to small venture companies. A third of the funding comes from the prefecture itself, and two-thirds from central government.

"The demand for investment is very high here," says Mr Kenya Ishida, head of the new industry and technology division of the Fukuoka prefectural government. "In other prefectures where they are implementing the same policy, they have money, but do not have enough companies to invest in. We do not have enough money because so many companies request investment. I think in four or five years' time we will see a lot of companies going public or expanding into world markets."

Promoting venture capital businesses is a popular idea all over Japan at the moment, but Mr Ishida says that the difference in Fukuoka is that the local government is providing administrative support as well as money and acting as a coordinator between different sectors.

Central and local govern-



Pillar of the economy? Hotels and services can't support the region on their own

ment play a key role in promoting business start-ups and development, but even bureaucrats are aware of the need to get the private sector involved.

"The prefectural government does not want to do everything, so we will help those people to meet, and the rest will be up to the private sector and the individual companies," says Mr Ishida.

The next big project, due to open later this year, is

Venture Plaza Fukuoka - a forum designed to help many providers of capital, technology and human resources and the small companies that need them.

No-one quite knows why Fukuoka should be a breeding-ground for more would-be entrepreneurs than the rest of Japan, but it seems that once the first few steps to encouraging enterprise are taken, a trend develops. When the government started promoting ven-

ture businesses, it created more demand than it could supply. This has recently prompted a number of large venture capital investment companies to open offices in Fukuoka, bringing the total to 11. Greater availability of funds means more venture businesses will be drawn to the area; it might not be too long before the Fukuoka stock exchange becomes better known as the launching pad for high-tech companies than noodle chains.

PROFILE Yaskawa Electric

Motor for the economy

An ability to adapt its product range has served the 80-year-old company well

Yaskawa Electric is one of Kyushu's best-known corporate names. From humble beginnings more than 80 years ago, making basic electric motors, it has grown into a highly sophisticated manufacturer of robots and industrial electrical equipment.

Yaskawa - named after the founding family, one of whom still sits on the board of directors - was established in 1915 as part of the pre-war Meiji industrial group, but is now an independent company, listed on the first section of the Tokyo stock exchange. More than a quarter of its products are exported, and it has subsidiaries and joint ventures in Europe, Asia and the US. Its biggest product area is mechatronics, including robots, inverters and servo controllers.

Traditionally, Yaskawa supplied the heavy industries that grew up in the area now known as Kitakyushu. But as reserves of coal in the region dwindled, and Japanese costs rose, many of those industries closed or moved abroad.

This means the company has had to adapt its product range. Yaskawa

has been developing robots since the 1970s. Its Motoman series of industrial robots - the first in Japan - is continuously evolving and can be found on production lines all over the world. More recently, the company has been involved in a Japanese government-sponsored micromachine research project, as well as in the development of robots for use in fields such as medicine.

In order to provide a steady supply of qualified staff, Yaskawa founded a technical university - the Meiji Engineering Technical College. This has since become a national academic institution and has been renamed the Kyushu Engineering University, but is still one of the main sources of graduate recruits for Yaskawa. A number of other technical universities and specialist colleges has sprung up in the area to complement it.

Yaskawa's long presence in the region has also led to the growth of smaller, supplier companies. These provide components for Yaskawa or do contract work for it. The company says, however, that such a network does not amount to the kind of keiretsu (vertical conglomerate) structure that is typical of many of Japan's largest manufacturers.

Bethan Hutton

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4 FUKUOKA

COAL • by Will Dawkins

Light at the end of the tunnel?

How the closure of Miike mine, a pillar of the community, is being managed

Fukuoka, like many regions that used to host traditional basic industries, is learning to cope with change.

At the end of March, it had to make a wrenching adjustment to the advance of competitive market forces into hitherto protected corners of the Japanese economy. The residents of Omuta, a small coastal town bid farewell to what had been a central part of their community for more than a century – the largest and oldest coal mine in Japan, the Miike pit.

Mitsui Coal and Mining, owners of the pit, had concluded it could not compete against cheap imported coal, after racking up losses amounting to billions of yen over many years. Imported coal comes off the boats from Australia at one third of the price of Japanese coal, which is rendered hopelessly costly to produce by the need to dig into Japan's deep and unstable deposits at wage costs that are among the highest in Asia.

Coal is just one illustration of a broader trend, known in Japan as hollowing out. Large parts of Japanese industry have been closed, or moved to cheaper locations in east Asia over the past two decades as new foreign competition has forced companies such as Mitsui and communities such as Omuta to make uncomfortable choices.

Until recently, Omuta's Miike mine was kept alive



Workers at Miike mine, which closed in March: all have been offered other jobs

by an artificial, but costly, drip feed. Its source of support was an unwritten agreement between Japanese electricity companies and the Ministry of International Trade and Industry, under which power suppliers purchased 5 per cent of their coal from domestic mines at high domestic prices.

Power companies never liked having to pay so much to support the coal industry, especially when they stood to benefit nothing from Miike's continued survival. Finally, last year they had the courage to refuse to overpay for Miike's coal, citing in their defence a demand by Mr Ryutaro Hashimoto, the prime minister, to cut Japan's internationally high domestic electricity prices by a fifth by the end of the decade.

Clearly, Mitsui could not afford to keep the mine open

and cut prices. After the closure of Miike, Japan will have a negligible coal industry – just two small pits, one in Hokkaido in the north and one in Nagasaki in the south, down from a peak of 680 in 1960. The demise of coal is greeted with a resigned shrug by those in the industry.

"We knew several years ago that closure was inevitable," says Mr Kenzo Yamada, general manager of the Miike coal union.

The union's attitude is remarkable given that its forerunner's resistance to job cuts led to the longest strike – 282 days – in Japanese history in 1959 and 1960.

Learning to accept the inevitable has not been easy, however. Coal has been mined, on and off, at Miike since the 15th century; coal is part of the local culture.

The mine, which opened 124 years ago, supported the race for industrial growth at the end of the 19th century, the war effort and post-war reconstruction. It was the site of Japan's worst mining accident, when 458 people died in an underground explosion in 1963. An oil painting of the tragedy hangs in the lobby of Mr Yamada's union office and almost everyone in the town knows an injured survivor. Coal is part of the scenery in every sense, as abandoned miners' homes near Omuta railway station testify.

The crude economic impact of industrial decline will, as it always is in Japan, be softened by generous state and company hand-outs. All redundant workers have been offered jobs, plus a pension worth just over half the basic wage. Those still in company housing

have been offered alternative accommodation. The problem, of course, is that they are all local people and only half the new jobs on offer are in Omuta.

Sadly, the paucity of new local jobs is hardly surprising. Omuta has been in economic decline for years. Its population now stands at just 140,000, a third below the 1960s peak as a result of successive job cuts at the mine. Former miners have been found the usual unproductive service jobs reserved for their kind, such as work at the local "Mitsui Greenland" theme park. But there is little room for more.

The answer, says Mr Takashi Kurihara, Omuta's mayor, is to create economically sustainable jobs, rather than, as other areas hit by industrial decline have done, throw money at more theme parks. It will by definition be a long-term project to restore the 10 per cent of Omuta's economy removed by the mine closure.

The city government has accelerated a ¥99bn development plan for a technology park, the conversion of the mine's seaport to general use and highway improvement. The cost is shared with central government. This might, hopes Mr Kurihara, stimulate the growth of mining related business, such as environmental equipment and chemicals.

Job creation schemes of this type have many parallels in areas of industrial decline in Europe. What is strikingly Japanese about Miike is not so much what is being done to ease the shock, but how the closure has been planned meticulously over the long term.

PROFILE Pan-Asia Airlines



Fukuoka airport: obtaining flight slots is a competitive, political business

Some turbulence before take-off

Despite the need for its services, Fukuoka's new airline has hit political barriers

Late last month, Fukuoka became home to one of Japan's rarest breeds – the new airline.

Pan-Asia Airlines, which was established by Academia International, an employee training company, is one of three new companies to be set up in Japan's highly regulated airline industry, dominated by a trio of big companies since the end of the war.

The airline is the brain-child of Mr Yoshimi Hirota, who founded Academia and is president of the new company. A former pursuer with Pan American Airlines, Mr Hirota was driven by the conviction that stronger ties between the Kyushu region and the rest of Asia create the need for better transportation.

"Somebody has to provide a bridge between Asian countries and Japan," Mr Hirota says. "When you look at Asia from Japan, Fukuoka is the natural place to build that bridge."

Mr Hirota noted that the problems of poor infrastructure were particularly acute for those travelling to China from Japan and Taiwan. According to Mr Takayuki Matsuo, a consultant at Sanwa Research Institute who is advising the fledgling company, Pan-Asia Airlines can cut travelling times by offering early-morning and late-night flights from Japan to cities in China.

"Academia International has been training employees of Japanese companies who are sent to Asian countries, and they have had a problem with transportation infrastructure," Mr Matsuo notes.

The supporters of Pan-Asia Airlines believe that there are also

significant gaps in the market for domestic flights. For example, the earliest flight from Okinawa, at the southern end of the Japanese islands, to Tokyo is at 9am and does not get in until 11.30am. Were Pan-Asia Airlines to offer a flight departing at 7.00am and arriving at 9.30am it would free up a good part of the morning for business, Mr Matsuo says.

As well as the business logic of supply and demand, there is another, more personal, reason why Mr Hirota decided to set up an airline. His job with Pan-Am had left him with a strong desire to revive the company in Japan – in spirit if not in actuality – and a belief that an airline with the management skills and the service quality of the Pan-Am would undoubtedly succeed.

"Pan-Am was a multi-national airline that had people from various countries working for it. About 1,000 employees of the company were left in Japan after the company closed and we kept in touch," he explains.

Mr Hirota saw that the start of the deregulation of the airline industry by the Ministry of Transportation was the perfect opportunity to realise his dream.

But even in Fukuoka, with its reputation for open-mindedness and its public support for venture businesses, starting an airline was difficult.

Raising funds was not the problem. Initial capital of ¥150m will be provided by a group of investors, led by Mr Hirota, Mr Tatsuo Kawai, chairman of Kyushu Electric Power, and Mr Zengo Ishimura, president of Ishimura Manseido, a local confectionery maker.

The main difficulties in getting Pan-Asia Airlines off the ground have been stringent regulatory barriers and local and industrial politics.

In spite of its apparent support for deregulation, according to Mr Hirota, "the Ministry of Transport is

reluctant to allow newcomers into the market."

Winning recognition as an airline requires political lobbying while obtaining airport slots is also a very competitive, political business that must be conducted not only in Tokyo but locally as well.

The transport ministry's strict standards mean it is very difficult to hire foreign pilots, while a gentleman's agreement in the industry prohibits pilots from leaving an airline and flying for another company immediately. Pan-Asia is planning to hire foreign pilots but Mr Matsuo says there are doubts about whether they will have the patience to pass the ministry's painstaking tests which, arguably, do not measure the pilot's ability to fly a plane safely.

Equipment is another problem. Although there are many used planes available cheaply in the US, the expensive business of obtaining authorisation in Japan for them cancels out any cost savings.

Local sensitivities must also be taken into account. Although Pan-Asia Airlines has taken great pains to win acceptance among the Fukuoka business community by informing as many business leaders as possible of its plans, those who have not been informed have publicly criticised the company. "Fukuoka is open in some ways but closed in other ways," Mr Matsuo notes.

Pan-Asia Airlines says that for the first year or two it will offer domestic services only: the transport ministry is being cautious about letting it enter the international market immediately.

But Mr Hirota believes the time is right for a company like Pan-Asia Airlines to succeed. "Everybody knows Japan has to change," he says.

Michio Nakamoto

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The prefecture's role in advanced technology

Representative companies

FUKUOKA

Nippon Tungsten (Magnetic head for computers, fine ceramics)
Kyushu Matsushita Electric (Car) character word processors, printers
Mitsubishi Electric (Total IC manufacturing)
Kansai Kasei (Quasi drugs)
Kyushu Noritake (Fine ceramics)
Rohm America (Resistors, transistors)

KITAKYUSHU

Mitsubishi Chemical (Nitric acid for IC, high purity rare-earth)
Nippon Steel (Seamless steel pipe)
Nippon Steel Chemical (Carbon fibre)
Yamaguchi Electric (Industrial robots, casting components for robots)
Mitsui High-Tech (IC lead frame, metallic mould for lead frame)
Tooshiba (Total IC manufacturing)
Rohm Fukuoka (Chip resistors)
Yoshitomi Pharmaceutical Industry (Antibiotics, rearranging genes)
Buzen Tooshiba Electronics (Assembling of IC)

* Integrated circuits

FUKUOKA

NTAKYUSHU
CHIKUGO
CHIKUGO

CHIKUGO

Apollo Electronics (Transistors)
Mitsubishi Denki (Devices for education)
Kyushu Matsushita Electric (Information connecting devices)
Fukuoka NEC (Assembling of IC)
Mitsui Toatsu Chemicals (Anticancer, IC chemicals)
Mitsui Metal Mining (Super hard alloy materials)
Mitsui Miki Machinery (Remote control system)

CHIKUGO

Fukuoka Tooshiba (Assembling of IC)
Kyushu Matsuda (Floppy disc)
Medica Shingaku (Antibiotics)

Source: The Fukuoka Prefectural Government

مكتبة النهر

Offshore Insurances and Other Funds

Offshore Insurances and Other Funds

هكذا عن الأهل

WORLD STOCK MARKETS

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INDICES

	May 9	May 8	May 7	High	Low		
Argentina (20/1/77)	21286.11	21236.69	21080.78	21591.32	2042	18222.37	21
Australia							
As Ordinance (1/1/80)	2858.0	2920.24	2517.8	2538.00	245	2822.20	29
Asb (1/1/80)	300.7	307.4	305.7	302.10	242	178.0	184
Costa Rica (20/1/284)	415.91		412.26	418.33	113	374.40	91
Taiwan Index (2/1/80)	1241.04		1227.21	1256.43	113	1130.22	91
Belgium							
BE200 (1/1/81)	2226.58			2234.75	56	187.15	105
Bonanza (20/1/285)	1040.02	10437.0	10180.0	10492.00	95	8.00	294
Canada							
Canada Index (1/78)	5487.57	5492.05	5422.92	5581.25	103	4465.95	91
Commodity (1/1/78)	5238.50	5157.40	5121.32	5332.50	103	5070.10	148
Commodity (1/1/78)	5185.57	5171.04	5105.95	5214.30	105	2480.12	104
Chile							
CPA Gen (20/1/280)	5386.31	5368.78	5353.40	5440.52	252	4812.42	91
Denmark							
Dan Index (20/1/80)	591.05		555.48	567.47	95	470.14	21
Finland							
Fin Index (20/1/80)	337.00		302.04	303.14	95	248.28	21
France							
FRF 200 (1/1/250)	1785.29		1770.47	1815.38	103	1833.19	21
FRF 400 (1/1/267)	5633.91		5643.12	5719.71	103	2258.97	21
Germany							
DM 100 (1/1/250)	1218.78		1212.12	1237.57	95	988.21	21
DM 200 (1/1/250)	2572.20		2561.20	2572.20	95	2478.80	21
DM 400 (1/1/257)	5662.41		5651.28	5698.28	95	2498.77	21
Greece							
GRD 500 (1/1/200)	1559.59	1544.47	1537.53	1568.59	95	954.94	21
Hong Kong							
HK\$ 500 (1/1/754)	13630.80	13740.39	13635.81	13700.80	95	12855.17	34
Indonesia							
Ind Index (1/78)	2763.34		2753.50	2844.61	43	3228.34	91
Ireland							
Irish Com (1/1/82)	573.58		555.84	571.02	292	531.27	154
Israel							
Israeli Den (1/1/80)	2193.18	2170.18	2128.4	2195.05	95	2725.07	21
Italy							
Italy Den (1/1/82)	710.75	705.38	717.24	757.21	102	682.35	21
Japan							
Yen 100 (1/1/257)	1180.0	1132.0	1182.0	1180.0	95	1093.00	21
Japan							
Yen 200 (1/1/254)	10022.76	20081.81	20048.00	20100.92	95	17300.05	101
Yen 400 (1/1/254)	287.22	282.54	291.54	293.04	95	251.04	21

US INDICES

Down Jones	May 8	May 8	May 7	1987	Size	Completion	Low
				High			
Industrials	7168.54	7136.82	7085.85	7226.32	6391.68	7226.32	41.22
Home Bldgs	102.22	101.59	101.88	103.03	101.59	106.77	5.08
Transport	261.20	261.73	264.42	264.81	262.07	268.81	15.20
Utilities	223.25	223.24	223.94	224.68	222.57	225.45	16.23
					(21)	(24)	(87/22)
DJ Ind. Div's high	7256.78	7258.98	Low	7079.83	(7042.30)	(Theoretically)	
May's high	7168.54	(7163.28)	Low	7079.83			
Standard and Poor's							
Composites	624.76	620.28	615.82	630.34	757.81	820.54	4.40
Industrials	568.94	565.13	560.83	578.58	685.42	578.58	3.52
Transport	93.31	92.36	91.74	97.50	(114)	(54.67)	(87/22)
Financial	93.31	92.36	91.74	(10/8)	(21)	(10/20)	(49/74)
NYSE Comp.	425.93	428.90	424.95	431.40	380.47	413.45	4.64
Amer. Comp.	573.78	570.95	570.50	603.83	541.20	617.81	324.26
NASDAQ Comp.	1355.01	1330.01	1322.91	1388.08	1261.00	1388.08	54.07
				(221)		(221/157)	(51/74)
■ RATIOS							
Down Jones Ind. Div.	May 2		Apr 25	Apr 18	Apr 18	Apr 18	2.21
	May 7		Apr 30	Apr 21	Apr 21	Apr 21	
S & P Ind. Div. yield			1.72	1.75	1.80	1.92	
S & P Ind. P/E ratio			23.33	22.68	22.19	21.26	
■ NEW YORK ACTIVE STOCKS ■ TRADING ACTIVITY							
Friday	Stocks traded	Close price	Change on day	● Volume (million)			
				May 8	May 6	May 7	
Chrysler	5,604,000	31.14	+4	New York	455,619	504,105	467,557
Pack Mgmts	4,000,000	42	+4	Amer. Exch.	17,285	21,156	18,757
Ford Motor	4,000,000	36.94	+4	NASDAQ	332	333	322.35
General	4,143,000	52	+4				
Dow Jones	4,000,000	95.4	+1	Index Traded	6,832	3,381	6,246
Portugal	4,000,000	40.9	+13				
Infiniti	4,014,400	29.94	-	Falls	1,832	1,403	1,887
Chrysler	4,000,000	36	+1	Unusual	863	879	835
Chrysler	3,815,000	65.1	+4	High	10	10	10
Chrysler	3,388,200	116.94	+4	Low	10	10	10
Open/Std. Price Change High Low Est. vol./Open int.							
■ S&P 500							

NORTH AMERICA

[illegible]**■ TOKYO - MOST ACTIVE STOCKS:** Friday, May 8, 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel Cp	14.7m	379	-6	Hitachi	4.8m	1240	-40
Yokohama Sp	7.8m	830	-5	NEC Corp	4.6m	1810	-20



Mos

A von einem Mann

[illegible]
$$\begin{array}{cccc} 59\frac{3}{4} & 58\frac{7}{8} & 58\frac{5}{8} & +\frac{3}{4} \\ 8\frac{7}{8} & 8\frac{1}{2} & 8\frac{7}{8} & +\frac{1}{2} \end{array}$$
[illegible]

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Company	Mid price	Change	Volume	High	Low	Company	Mid price	Change	Volume	High	Low
		on day						on day			
Advent	US\$7.125	-0.125	18,000	8.25	7.0	Expert Telecom ADS	US\$25.5	-0.25	15,000	12.25	5.5
Advent Systems	US\$10.525	+0.25	7,556	11	9.5	Ingenieros	US\$11.5	4750	12.75	10.375	
BT	77.15	30104				US\$18.00	-0.25	3078	11.75	8.75	
De Solomons ADS	US\$22.5	-0.125	3240	29.5	16.875	Platfish	US\$4.975	3078	6.125	4.25	

Prices for 9/26/97. Please note that mid prices are now used to calculate highs and lows.

هكذا من الأهل



It was just a computer simulation programme, I reminded myself, but I was still excited as I took up my position as the chief executive officer of RGP Financial Services.

The imaginary company, created by CD producer High Performance Systems, was a service group whose customer satisfaction rates were beginning to plummet. As I grabbed the reins of power, I remembered a hint from the program's maker: think of long-term, not short-term, profits.

Within 45 minutes I had run the company out of business.

After ordering me to clear my desk, the computer explained that I was right to invest in employee training but that my pay packages had been too generous. I sheepishly contemplated the horrible fate that might have awaited me had I taken up a management career.

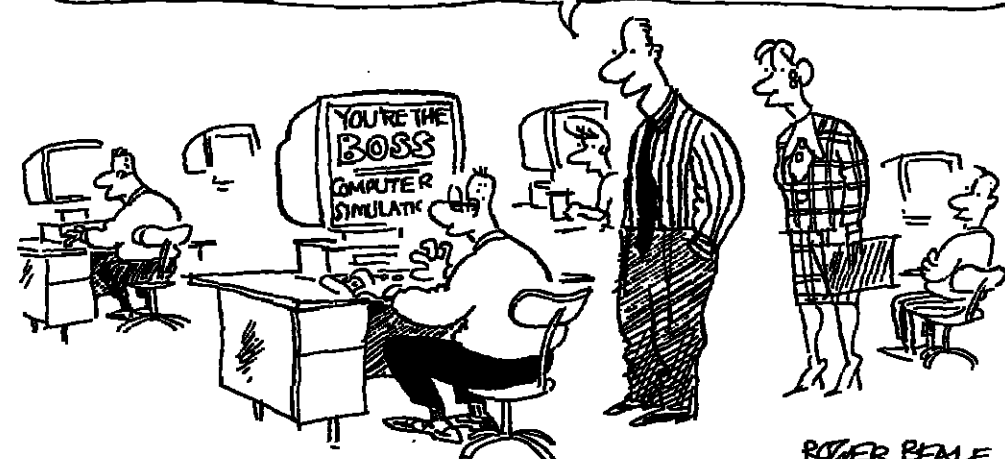
Executives and business students around the globe are grabbing at the chance to be "president for a day" through computer simulation programs. MBA schools such as Harvard, MIT's Sloan School and Wharton are using simulations regularly and companies such as hotel chain Hyatt, the Venezuelan oil group Petroleos de Venezuela, and the US car company General Motors have made computer simulations an integral part of their training.

Off-the-shelf products are increasingly available from companies such as High Performance Systems in New Hampshire, and Microworld of Cambridge, Massachusetts, although prices are still high - usually between \$100 (\$82) and \$400.

Simulation is edifying and fun, says Victoria Griffith

Boss for the day

SHOULD BE A PIECE OF CAKE FOR THE OFFICE "MINESWEEPER" CHAMPION



ROGER PEALE

Technological advances are driving the simulation boom. "Until now, this stuff was limited to advanced computer programmers and mathematicians," says Barry Richmond, managing director of High Performance Systems. "Now someone with a very basic knowledge in programming can come up with one, and virtually anyone can use it. It's just point and click."

The technology so simple that people in the industry predict management simulations will soon be nestled in the business

section of book stores and will sell for \$50 or less. Maxis, the CD producer behind the enormously popular game SimCity, in which players run an imaginary town, says it is interested in the field.

"Once those guys get in, it will have more mass-market appeal," says Jerry Porras, a business school professor at Stanford and author of simulation programs.

The main appeal of computer simulations is that they are fun. "Everyone really got into it," says Lisa Sedelnik, who used computer

simulation during a recent Wharton course. "You could hear people shouting 'Yeah!' or groaning when they were playing it."

Because most simulations are set in win-or-lose mode - make too many wrong moves and the company collapses - participants readily absorb the lessons and many players continue to play until they do win.

Simulations can be done without computers. The Beer Game, a board game developed by MIT professors more than a decade ago in

which players run a rapidly growing beer company, is still widely used on MBA programmes.

Yet the multimedia programmes add a new dimension to simulations. In the RGP programme, for instance, players receive urgent e-mail from the board complaining about issues like cash sufficiency and hiring. Every now and then the image of a talking head appears on the screen - a disgruntled employee or customer, for instance - to give their side of the story. Charts and tables appear at the click of a mouse.

"People often go into the simulations feeling a little sceptical that it will really be worthwhile," says Valerie Suffa, a simulation researcher with the Center for Creative Leadership, a think-tank. "But after a while, some say they almost forget it's just a game."

One benefit of simulations may be to show employees how tough life can be at the top. David Kreutzer, chief executive of Micro-world, was amused when cocky trainees at Petroleos de Venezuela were humbled by a simulation programme. "There's a tendency for employees to think the guys at the top are dumb and are doing everything wrong," says Kreutzer. "It's probably a good idea to let them see that managing a company is not an easy proposition."

While computer simulations are extremely valuable, there is a danger that some players will take them at more than their worth. "The lessons you learn from them are only as good as the assumptions that go in," says Richmond. "They represent the author's point of view, just as a management book does. Yet some people may take it as absolute truth."

NEWS FROM CAMPUS

Blair picks Insead MBA

One of Insead's most famous sons has been given a peerage and appointed minister for trade and competitiveness in Europe in the UK's new Labour government.

Insead MBA Sir David Simon has given up his job as chairman of British Petroleum, where he is credited with the dramatic revival of the company, to take up the new role.

Insead: France 1 60 72 40 00

Slovenia joins the big boys

Proving that management education in Slovenia is alive and kicking, the International Executive Development Centre in Kranj has become one of the first 18 European business schools to sign up for accreditation under the Equis scheme developed by the European business schools' trade body, the European Association for Management Development. Also included are seven French schools, three Spanish ones and two from

the UK - London and Ashridge.
EFMD: Belgium, 2 648 03 85

Asian wisdom for Carolina

This week, 19 students from the Kenan-Flagler business school at the University of North Carolina in Chapel Hill will visit Bangkok, Jakarta, Hong Kong and Guangzhou.

They are participating in a new 11-day course which is intended to develop the students into potential managers for the area. Kenan-Flagler: US, (919) 952 7235

Dutch team on the winning case

A team from RSM Erasmus in Rotterdam flew to Atlantic City earlier this month to beat teams from Rutgers university, and the universities of Ohio State and Georgia in the annual Rutgers Invitational case tournament. The teams had to analyse a case, prepare a report and give an oral presentation. Erasmus: Netherlands, 10 408 3768

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Evening Session, LONDON

MAY 21-22
New Strategies for Creating Corporate Value
Traditional performance measures focus too narrowly on historic accounting results. This event addresses other factors that encourage shareholder value investment by identifying the real wealth creators and value-drivers within an organisation.
Contact: Mick Gynor at Business Intelligence, Tel: 0181 879 3253
P: 0181 879 1122 E-mail: mick.gynor@business-intelligence.co.uk

LONDON

MAY 22
Advanced Intranet Solutions
Featuring hands-on applications, lunch and special guest speaker, Network Week Editor Maxwell Cooper. Participation is free with RSVP. Space is limited. To be held at the Hard Rock Cafe, London.
Contact: RND Networks Ltd
Tel: 0171 493 5333

LONDON

Discover America: U.S. Investment Opportunities for Expanding U.K. Companies
Speakers include senior advisors from Merrill Lynch, Towers Perrin, Deloitte Touche, Fleet Bank, Jones, Lang, Wootton, The UK Dept. of Industry and Trade, legal and marketing strategists and U.S. State representatives. They will discuss investment opportunities and strategies for your company. Successful and unsuccessful attempts to expand into the U.S. market will be highlighted.
Contact: Fiona Gilbert, GBA
Tel: +44 171 917 9651
Fax: +44 171 917 6802

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JUNE 2
Due Diligence & Risk Management
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Tel: +44 171 872 3070
Email: robin.murray@kelco.uk

King's College, LONDON

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SINGAPORE

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MARKETING / ADVERTISING / MEDIA

SPONSORSHIP

All in a good cause – and profitable

Victoria Griffith on the growing involvement of US companies in 'cause-related marketing'

Philanthropy is great for the image. No wonder US corporations responded enthusiastically to President Bill Clinton's call for more good works at his volunteer summit last month.

Some companies believe doing good can make such a difference, they are making non-profit causes an integral part of their marketing strategy. No longer content to hand over a cheque, these groups have tied their good deeds directly to the bottom line. The idea is donations to certain non profit-making organisations can measurably boost corporate sales.

Credit card companies are especially active in what has come to be known as "cause-related marketing". For the last four years, American Express has run a campaign for Share Our Strength (SOS), a hunger relief organisation.

During a two-month period, every time a customer buys something with American Express, the company gives three cents to SOS. Last year, the programme raised \$5m.

American Express benefits too. The company says use of its cards surges during the campaign, although it won't say by how much. "We do know that the Charge Against Hunger campaign has an influence on customers' choice of cards," says Lloyd Wirshba, general manager of the restaurant and entertainment division of American Express.

New England's Fleet Bank runs a similar programme to aid the Special Olympics for the disabled. Other companies link specific products to a special cause.

Household products group Johnson & Johnson last year launched Arthritis Foundation Pain Relievers. In return for the use of its name, the foundation received a \$1m donation from Johnson & Johnson, and gets a small share of the product's profits.

Sportswear maker Timberland has sponsored a special fashion line to benefit the City Year organisation which aids inner city teenagers. The same clothing that Timberland donates to City Year volunteers was appar-



Doing good: City Year volunteers at work

ently a hit with consumers in the stores.

The Chicago Bulls basketball team has just signed a deal with City Year that places the Bulls logo on Chicago volunteers' backpacks in return for \$65,000 in donation money over the next two years.

Ties are becoming ever more explicit. Last year, the American Cancer Society sold endorsements to the Florida Citrus Marketers Association for \$1m, and to makers of the NicoDerm nic-

otine patch for \$3m; both can now use the name of the society in their advertising.

"Essentially, non-profit organisations are licensing their names to companies," says Easturi Rangan, a professor of marketing at Harvard Business School. "It used to be more subtle, but it will increasingly become a routine way to do business."

"The non-profits will also start to realise the value of this to the corporations and demand larger sums of money."

Non-profit making organisations like the idea. "It's good for them, but it's great for us," says Priscilla Tuan, a volunteer for City Year.

"The companies not only donate money, they also give us free advertising. If it's good for both sides, why knock it?"

To be effective, the partnerships should make sense. Johnson & Johnson paired with the Arthritis Foundation because it wants arthritis sufferers to use its pain reliever.

Timberland teamed up with City Year because its clothes are especially popular with inner-city kids. American Express says it selected an anti-hunger organisation because its card is widely used in restaurants.

While everyone seems happy with these arrangements so far, there are clear risks to such close association. With the names tightly paired, scandals could have negative repercussions for the corporate or non-profit making partner.

To guard against such mishaps, corporations and non-

profit-making organisations agree it is important to vet partners carefully before striking a deal. And companies say it is better to identify with a general cause as well as a specific organisation.

"Our City Year deal is just a way for us to say we care about inner city teenagers," says David Kurland, who manages community service for the Bulls. "Our commitment to City Year is for just two years, but our commitment to the cause is for the long-term."

While these associations are clearly business transactions, marketing experts say they should also have an element of passion to make them convincing. American Express, for instance, not only gives money to SOS through its card campaign, but encourages its employees to do volunteer work. Timberland executives serve on the City Year board.

"The more sincere it is, the better it will come off in the market," says Rangan. "It can be very lucrative for both sides, but it's also a very tricky business."

MARKETING

Bringing up baby – on enfant cuisine

Baked fish with fennel and potato, followed by an organic medley of banana and apricot, washed down with purified water containing the sweetest hint of blackberry or lemon and lime.

Not the latest in director dining room fare, but the new generation of upmarket babyfood, dubbed "enfant cuisine".

Spurred on by the small, niche players who are challenging the notion that infant food must be bland, babyfood giants Heinz and Cow & Gate are planning major marketing campaigns this spring to introduce more adventurous recipes.

While chicken casserole and chocolate pudding will always have their place on baby menus, today's infant, says Belinda Mitchell, director of the Original Fresh Babyfood Company, deserves something more challenging.

Her company has launched the first range of chilled meals for babies, which at £1.29 for 175g of sweet potato and carrot with cinnamon or mushroom and sweet pepper risotto, does not come cheap.

But for parents who can afford the luxury of cook-chill meals for their babies – or who perhaps are too busy to start cooking from scratch – the range is a landmark for an industry that has always played safe.

Newcomer Mitchell has the expertise of celebrity restaurant chef Mark Hix, of Le Caprice in London, to help her develop more adventurous meals for the highchair diner – other Hix recipes include lentil casserole and courgette risotto with banana.

The mighty Heinz and Cow & Gate companies meanwhile are going to rely on decades of experience.

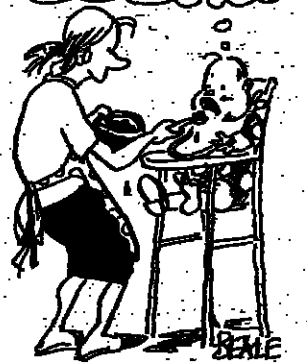
For Heinz, which has already launched and

subsequently scrapped the first ever range of frozen babyfood, Baby's Choice, the way forward is in pasta.

Among the company's new recipes are pasta shells with chicken and mushrooms and pasta twists with tender pork; hardly leading-edge developments in infant cuisine, but a significant departure from the rice pudding and spaghetti bolognese that have been Heinz's top sellers for years.

Other innovations from the babyfood market leader include a range of purified

THE TERM 'AL DENTE' CLEARLY MEANS NOTHING TO THEM



spring water for babies containing hints of lemon and other flavours.

Cow & Gate, which is also expanding its range of organic babyfoods, believes that the developments in babyfood simply reflect the changing eating habits of parents.

The company is unveiling its new Small World range of "cosmopolitan cuisine" for the well-travelled baby of seven months and upwards. Recipes including chicken chow mein, goulash and even spicy curries.

Virginia Matthews

Stefano Hatfield • Ad in the News

More of the same

It's tough being a global airline's ad agency. Your client seeks the same positioning as all its rivals: "We fly more people to more places in greater luxury than anyone else."

Unfortunately for American, United and Delta, British Airways got there first with Saatchi and Saatchi's "world's favourite airline" campaign.

However, when in 1995 BA switched to Maurice Saatchi's new agency M & C, the other airlines had an opportunity to tap into years of first-hand competitive global experience. Delta awarded Saatchi's its \$100m worldwide account in March.

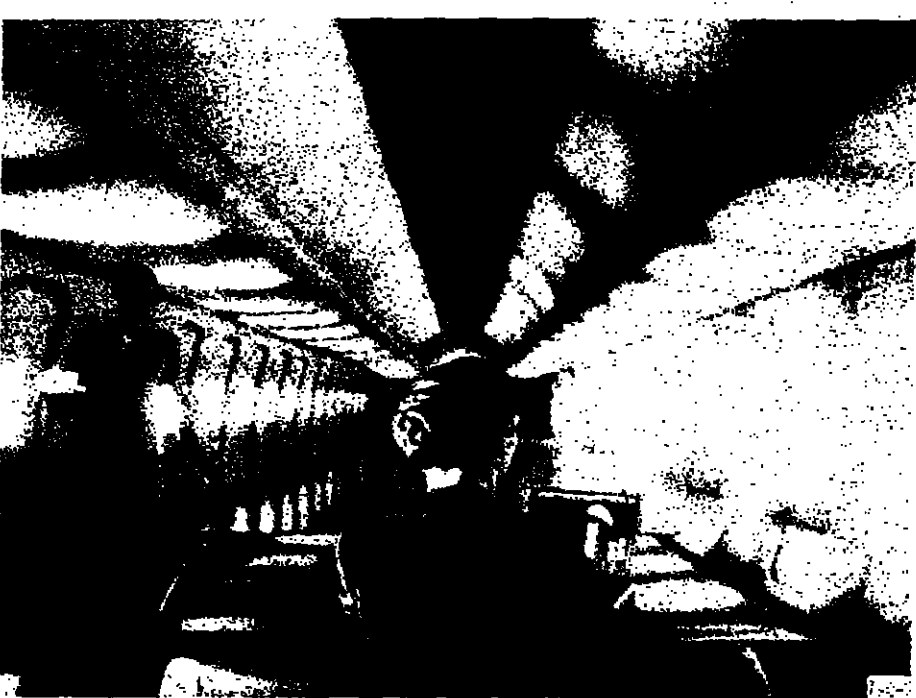
Any vaguely ad-literate viewer will not be surprised by the result. "The world's favourite" has been reborn as Delta's "on top of the world". It's a glossy and ambitious 60-second commercial designed to run across national borders, and therefore has no dialogue.

In a series of scenarios an aircraft's interior is distorted to a vast scale. A laptop-pounding businesswoman is brought coffee in a designer office; another reposes on a grassy knoll; a businessman is served lunch by a legion of chefs; a second sits in a luxury cinema; a third enjoys the sounds of a huge orchestra. All of these symbolise services available on a

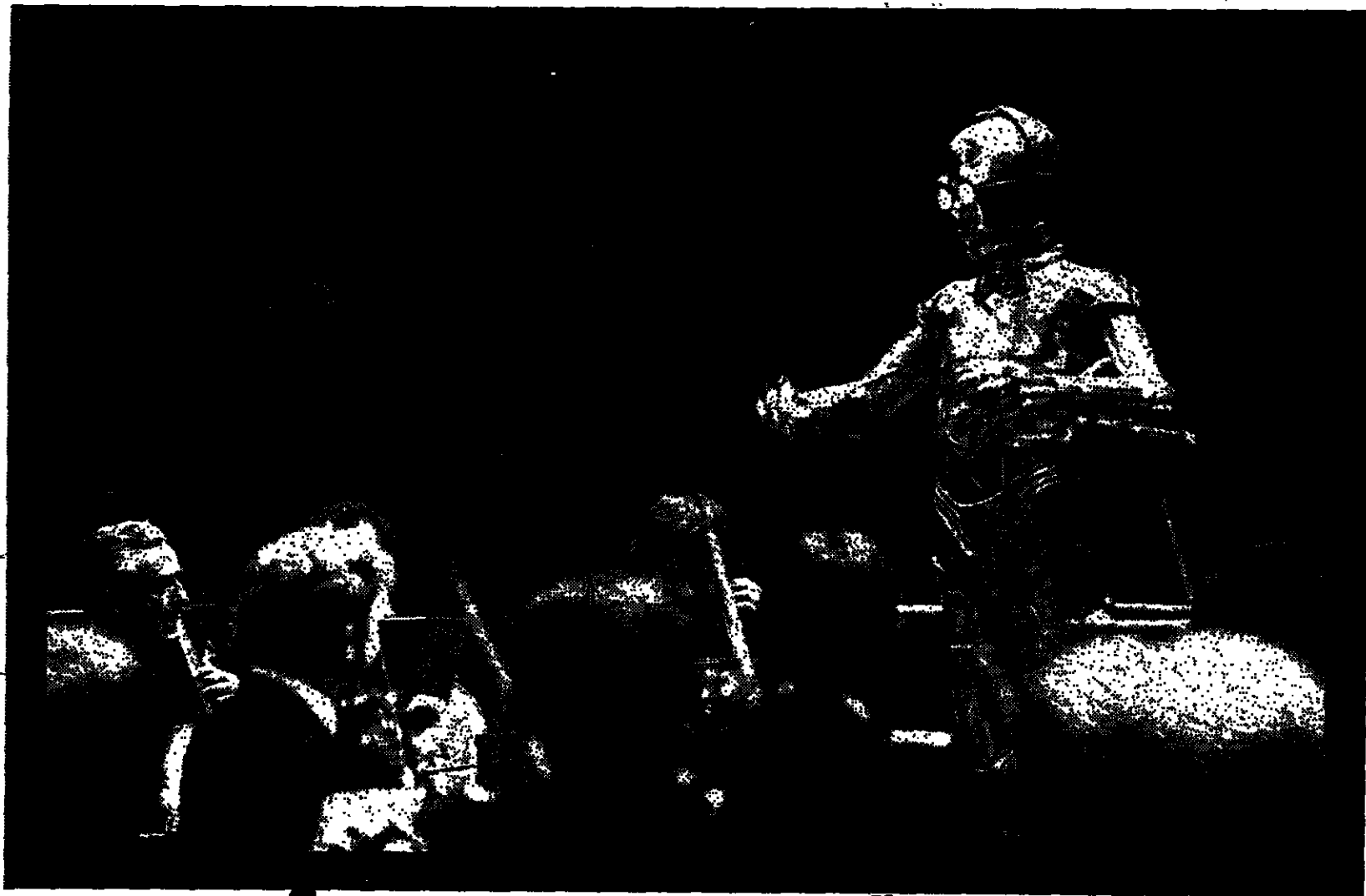
Delta flight. Throw in the inevitable claim that Delta flies more people than anyone else, and a neoclassical piece of music, *Adiemus* by Karl Jenkins, and if it wasn't for the American voiceover we would be in a BA commercial. That, of course, is exactly the point.

Delta must now deliver its message consistently. BA has used the same strategy for over a decade. We think of it as "the world's favourite airline" whether it is or not. It helps that BA spends \$10m a year on advertising in the UK. Compared to that, Delta's £2m appears paltry.

The author is editor of Campaign.



On top of the world: Delta's campaign follows a familiar style



We've played in another galaxy with C-3PO. We've accompanied Superman to the planet Krypton. We've performed in scores of sci-fi movies. All in a day's work for our band of pioneers. In 1912 we were the first British orchestra to tour America. And we'll soon be back, on our global concert series to the States, Europe and Japan. The tours will be sponsored by the Japanese pharmaceutical company Takeda Chemical Industries. Like us, they believe the LSO's music should reach a global audience. And even on planet Earth, that's a lot of people. Perhaps your company could join in? Talk to our Head of Development on 0171 588-1116. Meanwhile, with Takeda's backing, we're planning our next mission to the United States. We can't wait. After our conducted tour of Hyperspace, we yearn to play for Earthlings.



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MUSIC

Not yet quite in tune

The music industry's enthusiasm for the Internet has faded but record labels remain convinced of its value, says Alice Rawsthorn

One of the most popular websites in Britain opens with an image of five women perched on a row of chairs.

They are the Spice Girls, currently the UK's best-selling pop group, and each month their website generates more than 1.5m hits.

The site is run by Virgin Records, the Spice Girls' label which, like other record companies, has launched websites for most of its acts.

When the music industry started experimenting with the Internet two or three years ago, it did so in the expectation that albums and singles would, eventually, be bought and sold online.

There are still legal and technical issues to be resolved before that happens, and in the meantime record companies are limited to using it as a promotional medium.

Like companies in other sectors, the enthusiasm with which record labels first approached the Internet has faded.

Having realised that maintaining websites absorbs much more time and money than they initially expected, many companies are more circumspect about it.

"I've now spent three years trying to get the Internet to work for us," says Marc Marot, managing director of Island Records, which has created sites for UB2, The Orb and P.J. Harvey.

"Personally, I'm convinced that it adds value, but it's difficult to measure how much," says Marot. "And it all adds up to a lot of time and a considerable amount of money."

In many respects, the Internet is an ideal medium for the music industry, as the demographic profile of a typical "techie" - young, reasonably well-educated, and probably male - matches perfectly with that of frequent record buyers.

By the time record companies started developing their own sites, thousands of unofficial ones already existed, generally launched by fans and dedicated to particular



Music pages rule the web

acts or genres. The first "official" sites were fairly rudimentary, but they have become more sophisticated as technology has advanced.

In many respects, the Internet is an ideal medium as the demographic profile of a typical "techie" matches perfectly with that of frequent record buyers

although sound quality isn't perfect yet, and video looks very jerky on most home modems," says Neil Cartwright, web master of Sony Music, which runs sites for bands such as Kula Shaker and Jamiroquai.

Record companies still use their websites primarily to relay information about acts

- ranging from details of forthcoming tours to showing clips from new videos - in the hope of raising their profile among prospective fans, and strengthening

their relationship with existing ones. But they have refined the way they convey that information.

"Two years ago labels were putting up dull pages of text, and we realised very quickly that wasn't what people wanted," says Danny Van Emden, head of marketing at Virgin Records, which

features more than 50 acts on its sites including Everything But The Girl and Future Sound of London, as well as the Spice Girls. "We've introduced much more interactivity."

Another change, according to Van Emden, is that record companies have become more aware of the varying capability of different computers.

Some sites, she says, were "so clever and tricky" that they were virtually inaccessible to many home PCs.

Virgin now offers different music samples to suit various systems, and provides basic versions of its "trickiest" sites to be accessed by less powerful computers.

As expected, many of the most popular sites have been those dealing with the music likeliest to appeal to computer buffs, notably the elec-

tronically-generated sounds of dance acts, such as Chemical Brothers and the Prodigy.

More surprisingly, children have emerged as avid users of music sites, logging on at school Internet Clubs, or on their parents' computers.

Labels have also found it helpful to set up sites for esoteric genres, such as world music, jazz and classical music, which often find it difficult to secure mainstream media coverage.

It is virtually impossible to quantify the impact of websites on record sales, but they do provide a means for record executives to monitor the public's response to releases and to individual labels.

"It's incredibly helpful," says Marot, who makes an effort to go through all the e-mails sent to the Island site. "Because it's the only way we can tell what people really think about the music we're releasing."

The principal problem facing record companies is finding the resources to maintain their websites. There are now so many sites that it is increasingly difficult to come up with distinctive concepts, and considerably more expensive to ensure that they are all regularly updated.

Most record companies call in freelancers to design their websites, but can only afford to have a couple of people dedicated to working on them.

They tend to rely on the rest of their staff to supply images and information to refresh the contents. Hence the quality of the new material, and the speed with which it is delivered, varies tremendously.

Marot suspects that the best solution is for artists to run their sites themselves, as Pulp, one Island act, already does.

"The problem is that other artists aren't committed to the Internet," he says. "They think it's interesting and quirky, but it isn't real to them - not yet."

MEDIA

The new clinging to the old

Why has Salon, a high-brow online magazine, decided to syndicate its copy to the print newspapers and magazines which new media publishers formerly disdained?

The deal, through United Feature Syndicate, is designed to augment the advertising revenues from Salon's Website. But it also attests to new media's dependence on the old.

The most successful online publications and services are those heavily promoted in newspapers and television. Salon appears to have learned this lesson: it has insisted buyers of its content prominently display its web address.

Now Halsey Minor, chief executive of CNET, the leading online provider of technology news, says: "I've seen the power of crossmarketing (between new and traditional media) and I am a great believer."

CNET, which is based in San Francisco, began business as a maker of pro-

grammes such as CNET Central for US cable television. The publicity from these programmes gave it brand recognition when it launched its web site, which now offers technology news, advice about computers and shareware software.

Other media companies are following CNET's example. Newspapers are still handicapped by their reluctance to put up stories on the Internet before publication in print, a psychological barrier from which pure online media companies do not suffer. But television companies are well-placed.

The material goes on live, so they do not run the risk of scooping themselves. As telecommunications capacity increases, and compression technology such as Progressive Networks' Real-Video improves, their content becomes easier to deliver over the Internet.

Maybe Salon should start a cable television show.

Already ESPN, the leading sports channel on US cable television, has established ESPN Sportszone as the most trafficked sports site on the Internet. MSNBC, a joint venture between Microsoft and NBC, the software giant and the TV network, is attacking the online news business.

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Nicholas Denton

TELEVISION

Tuned in to change

The BBC has this month quietly started to implement a controversial decision to invite outside consultants to run and completely redesign its accounting and financial systems - on a ten-year contract.

At issue is the way £2bn of annual licence fee payer's money is shuffled around under the corporation's imperfect internal market system of producer choice. The aim is to replace the notorious shuffling of paper with a near universal method of electronic transfers.

The outside team, called Media Accounting Services (MEDAS), is a joint venture of management consultants

from Coopers & Lybrand, and America's information technology experts, EDS (originally a spin-off from General Motors), which installs and runs financial systems within companies worldwide. The deal is worth about £500m.

The BBC's board of governors has said it will review the initial phase of the deal at the end of this year before giving the green light to building a new common computer and information technology system. Then a decision will be taken on transferring 700 BBC finance staff into the new company. On March 1 an initial 90 computer support staff were transferred to MEDAS in the first phase.

The consultants are working on the design of a single, centralised computer system: "state of the art" promises EDS. It will be expected to deal with the way the BBC's six big divisions relentlessly trade with each other. It will also handle the thousands of individual payments to programme contributors.

One aim is to replace paperwork by dispensing electronic procurement cards to key programme production departments, rather like a credit card, so funds are electronically transferred, said Neil Anderson, head of BBC finance operations.

Maggie Brown

INTERNET

Dr Dilemma takes the lead

London International, maker of Durex condoms, has transformed its online marketing strategy, introducing Dr Dilemma and Online Lovers in an attempt to project a youth image.

For over a year the company has been dispensing medical advice over the Internet from its - very serious - World Wide Web site.

Most advertising-led sites take their themes from campaigns in the traditional media, television and maga-

zines. The relaunched Durex site has reversed this approach: the company is to lead its advertising in all media from the Web.

Using the Internet to drive other media allows the brand managers to identify the most effective parts of the campaign - right down to the models and characters users prefer - without expensive research as the computers automatically monitor which pages users choose to click on.

Running advertising on

the Net before transferring it to television could prevent an expensive flop.

"The Web site is the focal point; other advertising will borrow from this," says Vincent Jeannard, new media manager for LIG. He sees part of the draw of the Net in its "youth" image, something the company as a whole has been trying to project.

But while "Tony Mascarpone's love zone" and the Online Lover, a mixture of screen saver and e-mail from

a fantasy lover, prove the site is aimed at a younger audience, it has retained its serious side. Dr Dilemma is a real doctor, and there is a whole section devoted to sexual health. As Jeannard says: "There just isn't enough physical space to present all the information people want on the back of the packet."

James Mackintosh

Tim Jackson

Broking ensnared on Web

A couple of weeks ago, I received an odd letter. It was from E-Trade Securities, an Internet brokerage based in Palo Alto, California. "We are writing to inform you that securities regulations in the UK prevent UK residents (regardless of citizenship) from establishing brokerage accounts with E-Trade Securities," the letter explained.

It went on to ask for instructions on what to do with the shares and cash in my account, and warned that unless I replied by April 18, my holdings would be liquidated and my money returned.

As it was dated the first of the month, my original thought was the letter was an April fool.

When I checked with E-Trade, however, I was told that the company was in deadly earnest. "Unfortunately, we are required by your government to close these accounts," it explained.

By automating the process of buying and selling shares over the Internet, E-Trade has built a customer base of over 150,000 clients in the US - and has created a new class of service that undercuts even the deepest of America's "deep-discount" brokerages.

By denying Britons access

to the service, the British financial regulators seemed to be trying to prevent local consumers from benefiting from the lower prices and better service. What could they be thinking of?

Consumer protection hardly looked like a good reason. Although fundsters have been taking enthusiastic advantage of the Internet, E-Trade Securities is honest (I even own stock in the company).

It is regulated by the US Securities and Exchange Commission, and its customers have the same protection as clients of Fidelity or Merrill Lynch.

At first sight, it looked as though the British, egged on by domestic firms trying to keep a low-cost international competitor out, had decided to regulate E-Trade's British business out of existence - even though the company only offers broking services for shares and derivatives quoted on American exchanges.

According to the Securities and Investments Board that is not what happened. An SIB spokesman explained that the Financial Services Act draws a distinction between advertising services such as stock-broking, and actually carrying them out.

To issue investment ads in Britain, or cause them to be issued, is a criminal offence unless the ads have been approved by a person

who is authorised to carry out investment business in the UK. Carrying out business from abroad for British customers, by contrast, is allowed if you have no local office and you receive unsolicited business or do not solicit illegally for business in the jurisdiction by contravening the advertising or unsolicited calls provisions of the act.

Whether publishing information in the US on the World Wide Web that can be read by British customers counts under the act as advertising or soliciting in Britain is a moot point. The spokesman said: "Our view is that if a person in the UK can pull the investment ad up on the screen, the ad is seen to have been issued to him in the UK."

But later he insisted: "We're not looking to try and enforce against the world's passive advertisers on the Internet."

In this case, the SIB's attention was drawn to E-Trade because the company put an ad in the Sunday Business newspaper. That, it seems, was E-Trade's big mistake.

The short-term moral for other electronic brokers in the US seems clear. Provided you are careful either to avoid directing advertising in Britain, or you have your British ads (including any Web materials aimed at British customers) approved by a company with local authorisation, you are free

to issue the ads in the UK. If you can arrange for your activities to fall within the appropriate exclusions of the Financial Service Act, you can build a brokerage business in Britain without having a local office.

In the long term, however, two conclusions seem clear. One is that financial services seem certain to join the long list of activities whose regulation has been thrown into confusion by the Internet.

The core issue is whether a company in country A is to be considered as providing a service or issuing information in country B if a client in country B has access to them over the Internet.

Another conclusion is that there is an urgent need for government regulators of service industries to recognise each other's rules. This is easier said than done. International trade in services has proved one of the most difficult negotiating issues in international talks - not least because regulations are often a useful way of excluding foreigners from your market.

This issue is likely to become dramatically more important over the coming two or three years as the Internet allows more and more services to be delivered across frontiers. Unless it can be sorted out, many of the benefits will fall to materialise.

tim.jackson@pobox.com

FTid - The Internet Directory

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ARTS

SIGNING OFF



PRAGUE
Tonight's inaugural concert of the Prague Spring festival marks the re-opening of the Smetana Hall after refurbishment of its magnificent Jugendstil interior. Yugoslav foreign guests such as Yehudi Menuhin (above), the festival features the cream of

Czech musical life, and for the first time includes a significant jazz element.

GLASGOW

The opera *Resurrection*, by Peter Maxwell Davies, receives its UK stage premiere on Wednesday at the Theatre Royal, in a production imported from Holland. The work, a savage parody of traditional values, was first performed in Darmstadt in 1988, but has not achieved the popularity of Maxwell Davies's other stage works.

WARSAW

The Philadelphia Orchestra, under its music director Wolfgang Sawallisch, opens a European tour at the National Theatre on Wednesday. Over the following two weeks the orchestra will visit Florence,

Rome, Venice, Paris, Brussels, Amsterdam and Madrid. Friday's concert in Cologne features the European premiere of Wolfgang Rihm's latest orchestral work, *Serious Song*.

BASLE

The 500th anniversary of Hans Holbein's birth is celebrated at the Kupferstichkabinett on Wednesday. Some of his finest drawings (above) are being exhibited alongside examples by Dürer and Grünewald (right). A parallel show of prints brings together all 340 works in the city's collection. Both exhibitions run till August.

GLYNDEBOURNE

Glyndebourne Festival Opera's

1997 season begins on Sunday with Puccini's *Manon Lescaut*, marking the Glyndebourne debut of John Eliot Gardiner. He conducts a

staging by Graham Vick, with Romanian soprano Adina Nitescu in the title role.

SALZBURG

Colin Davis brings the London Symphony Orchestra to the Grosses Festspielhaus on Saturday for three Whit weekend concerts. This is the 25th and last time that Salzburg's Whit concerts will take place in their present form. From next year, they will be given in a new concert hall at Baden-

Baden in Germany, while Salzburg hosts a baroque mini-festival.

DRESDEN

Dresden's music festival opens on Saturday with a concert conducted by Kurt Masur (left) in the Kulturplatz. The main thrust of this year's programme is Italian music of the baroque and bel canto eras. There are stagings of rarely-heard operas by Paisiello, Rossini and Galuppi, and Dresden's churches are hosting concerts of Italian sacred music.

PARIS

On Wednesday, at the Palais Garnier in Paris, the Opera Ballet begins a run of performances of Pierre Lacotte's intriguing re-staging of *La Sylphide* - with varied and fine casts which include the sublime Elisabeth Petiet.

LONDON

The director Sam Mendes, who has turned his attentions before to such musicals as *Oliver!* and *Comedy*, now takes up a new musical, *The Firm*, by John Dempsey and Dana P. Rowe, and presents it at his Donmar Warehouse. The production opens tonight and features John Barrowman and Kathryn Evans. The live Disney show *Beauty and the Beast*, already a New York hit, opens at the Dominion Theatre tomorrow.

Opera
Traviata recovers

The doctor in *La Traviata* writes off Violetta's chances pretty smartly as did most critics for English National Opera's recent production of the opera. I was one of them, so it is heartening to find it unexpectedly being brought to life.

Put in a staff producer who is not afraid of doing away with previous sillinesses, hire singers who are prepared to go out and sell the opera, and with luck a good, standard performance will come out of it. This *Traviata* may not deal in carefully-considered nuances, as Jonathan Miller intended when it was new last autumn. But it is not boring, or pale, or effete, or lacklustre, as it most certainly was then.

Violetta's trendy trouser-suit in Act One has gone off to the charity shop and she now wears a black velvet gown with long gloves, like other Violettas. There were not many other ideas to dispense with, so Leah Harsman has just moved everybody into the right place to put the drama across (not much can be done about the dull sets). It all works rather well, given a stronger-than-usual cast of singers.

Susan Patterson has made a name for herself singing Violetta around the US, and her sizeable soprano pays dividends at the London Coliseum. Here is a singer who knows how to project both her voice and her personality. Her Violetta is no shrinking violet. In party mode, Patterson plays the toast of society, a knowing and manipulative courtesan. Faced with a difficult future father-in-law, she could wipe the floor with most Giorgio Germonts, though Christopher Booth-Jones's bristling Victorian father-figure is fortunately not one of them. Could her acting suggest the necessary fragility in the death scene? In this production she hardly has to try, as Violetta never moves from her bed. Instead we could concentrate on quiet singing with some lovely, luminous tone. Her Alfredo is Julian Gavin, who sings with riles impressively in the big vocal moments. He really is not much of an actor, but ENO is probably so glad to have a tenor with top notes like these, they do not care. There is also more pace and passion than before, as Noel Davies seems to have discovered where fourth gear is since he conducted the last set of performances. All told, an unforeseen pleasure.

Richard Fairman



Making his directorial debut at Cannes: Gary Oldman (left) on the set of 'Nil By Mouth', photographed by Jack English whose prints can be seen at the Photographer's Gallery, London WC2 from June 10-27; and (right) a scene from 'Welcome to Sarajevo', directed by Michael Winterbottom

Cinema's Cinderella no more

Nigel Andrews in Cannes finds British movie makers ruling supreme amid the madness on the Med

Anyone who believes that to reach 50 is the beginning of wisdom had better come to Cannes (there is still sleeping room on the beach).

The madness on the Med has reached a new pitch this year. More crowds, more hype, more razzmatazz.

And on the facade of the Palais des Festivals, two 65-foot-high golden palmfronds flanking a giant bronze *Joel* mural that extends the real stairway below into an infinity.

Above the mural at night are raking searchlights, no doubt seeking a blessing for the festival from someone in the Heavens. It might come from one of the departed greats such as Hitchcock, Welles, Fellini or Truffaut whose images dot the painted stairway, while the one below is trod by living, flashbulb-strafed VIPs like Bruce Willis, Demi Moore and Michael Jackson.

Meanwhile, we critics struggle bravely through the *mêlée* to watch movies. My back, an old foe, gave out on the second day, no doubt on the orders of my brain. Getting out of bed the next morning required 30 separate movements and I had to say "Non, desolé" to the lovely-sounding but physically-demanding invitation to lunch on a yacht.

What balm for the back, however - and mind and soul - to find Britain once more in charge of the movie culture.

What is happening to this nation once deemed the Cinderella of cinema?

Last year at Cannes it was *Secrets and Lies*, this year at the Oscars *The English Patient*. Now Gary Oldman's *Nil By Mouth* and Udayan Prasad's *My Son The Fanatic* have seized the early thunder in the Competition and Directors' Fortnight respectively.

Movies directed by famous actors are a mixed blessing. Most attract advance curiosity, rewarded in the performing department but frustrated in those of script and structure.

Nil By Mouth, directed by Oldman from a script based on his working-class London childhood, is faulty in form but explosive in content. Alcoholism, violence, sexism, racism - all the things Oldman evidently got enough of at home he dramatises with a stunning cast. This is led by Ray Winstone as the family psychopath, Kathy Burke as his beaten, miscarrying wife and Charlie Creed-Miles as the young second-generation drug addict who kicks the habit only to be all but kicked back into it.

Oldman's direction is, to put it mildly, in your face. The close-ups almost crush our noses; we can scarcely breathe in the smoke-wreathed pubs. Yet the film has a wonderful directness, as if the director had to make it and left no crack of opportunity for pretension or patronage in his viewpoint.

Sole reservation - one wishes a

co-writer had been employed to hone and tighten, and to trim two gauche scenes of special pleading in which the sins of the present are "explained" by the traumas of the past. Yes, yes, we feel like saying, dropped on your head as a child, what a shame. But these scenes are always the psychological equivalent of "the dog ate my homework" (the parents ate my psyche) and audiences, like schoolteachers, like to appraise end-products not hind-sight excuses.

My Son The Fanatic boasts the best Hanif Kureishi script since *My Beautiful Laundrette*. Here are more family troubles on the fringe of British society. This time, though, the youngster is the demon, as the son of an Indian immigrant taxi driver (*City of Joy's* Om Puri) turned fundamentalist.

The boy fills the home with a Maharishi and disciples, whose messianic misogyny bans mum

to the kitchen while waging war on the city's streetwalkers. One of these (Rachel Griffiths), it so happens, is awakening new romantic fires in dad.

This funny, tender movie brought waves of applause from the audience. Where Prasad's debut *Brothers In Trouble* showed he was a gifted miniaturist, his second movie is larger and richer with no loss in refinement.

What could have been an immigrant version of the generation-gap slapstick of television's *AbFab* - the middle-aged having their fun ruined by the puritanical young - is human as well as hilarious.

The least convincing British film has been Michael Winterbottom's *Welcome To Sarajevo*.

In *Butterfly Kiss* and *Jude* this director showed his skill at making the outlandish seem every-day. Here he makes it seem banal, which is quite different.

The film is based on ITN reporter Michael Nicholson's memoir of the war, and of his own conflict between newscaster neutrality and a growing emotional investment that ended with him adopting a Bosnian child.

Stephen Dillane conveys no conflict at all, except that between his slick minimalism as an actor and the piously sentimental convulsions of the script.

While the bread-and-butter massacre and other horrors are given a graphic but brief airing, we are asked to agonise endlessly about the frontline orphanage.

It is as if the problems of adults matter not a hill of beans next to those of children, whose instant appeal as victims no doubt assures the film a long box-office life while Bosnia's slain or maimed over-thirties are consigned (much as they

were on television) to oblivion. Elsewhere it has been lottery time at Cannes. The jackpot combination of great subject and great talent that makes a masterpiece has yet to come up.

Both Marco Bellocchio's *The Prince Of Homburg* and Wim Wenders' *The End Of Violence* promised more than they delivered, though Wenders' star-strewn fable about life and death in Hollywood is at least a beautifully-constructed plaything, with Bill Pullman, Andie MacDowell and Gabriel Byrne gazing across indoor and outdoor landscapes that are part Hockney, part Hopper.

The annual parking space for a Far East furor has been taken by a movie shown out of competition. When Zhuang Yang's gay psychodrama *East Palace, West Palace* was programmed and shown on the second day at Cannes, China withheld not just Zhuang's passport but also that of

premier Chinese filmmaker Zhang Yimou, whose new film was a scheduled contender - though not any more - for the Palme d'Or.

Zhang, currently directing opera in Italy, will not be mounting the red stairs later alongside expected Cannes celebs like Sean Penn, Gene Hackman and Clint Eastwood.

East Palace, West Palace is admittedly a gasp-inducer from China, a Genet-like tale of erotic power games between a young homosexual and a police officer. But since homosexuality is not illegal in China - the government position is that it "does not exist" - it seems sad that Beijing could not have dismissed Zhuang's movie as a fantasy: one of those Sci-Fi-ish tales about a world remote from Chinese experience in which people make free decisions to live free lives in the pursuit of love, happiness and self-fulfilment.

INTERNATIONAL
ARTS
GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Borodin Quartet: with clarinetist Eduard Brunner and pianist Ludmilla Berlinskaya perform works by Prokofiev, Mozart and Shostakovich; May 16

EXHIBITION
Van Gogh Museum Tel: 31-20-5705200
● Vienna 1900: Portrait and interior, exhibition featuring paintings and applied art from Vienna, spanning the years 1870-1918. Highlights include works by members of the Wiener Secession movement (with Gustav Klimt as its most important representative) and portraits by the Expressionist artists Egon Schiele and Oskar Kokoschka; to Jun 15

BERLIN

CONCERT
Konzerthaus Berlin Tel:

49-30-203090
● Rundfunk-Sinfonieorchester Berlin: with conductor Heinz Richter and violinist Matthias Wollong perform works by Casella and Schubert; May 16

OPERA
Deutsche Oper Berlin Tel: 49-30-3438401
● Susannah: by Floyd. Conducted by Christian Arning, performed by the Deutsche Oper Berlin. Soloists include Karan Armstrong and Dean Peterson; May 16

BRUSSELS

CONCERT
Palais des Beaux-Arts Tel: 32-2-5078200
● Orchestre National de Belgique: with conductor Barry Wordsworth and horn-player Marie-Luise Neunecker perform works by Debussy, R. Strauss and Stravinsky; May 16

BUDAPEST

EXHIBITION
Hungarian National Gallery Tel: 36-1-1757333
● Magnificent anima mea dominum: display of fine art from the late Gothic period, with the restored panel painting "The Visitation", dated 1506 and signed by Master M.S., a particular highlight; to May 25

COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● Philadelphia Orchestra: with

conductor Wolfgang Sawallisch and violinist Frank-Peter Zimmermann perform works by Rihm, Schumann and Brahms; May 16

COPENHAGEN

DANCE
Det Kongelige Teater - The Royal Theatre Tel: 45-33 69 69 69
● Royal Danish Ballet: perform Peter Martins' choreographies "Ash" to music by Torke, "Zakouski" to music by Rachmaninov, Stravinsky, Prokofiev and Tchaikovsky and "Fearful Symmetries" to music by Adams; May 13

LONDON

CONCERT
Purcell Room Tel: 44-171-9604242
● Joachim Piano Trio: perform works by Schumann, Pärt, Liszt and Schubert; May 15
Queen Elizabeth Hall Tel: 44-171-9210600
● Bournemouth Sinfonietta: with conductor Roy Laughlin perform works by Verdi, Donizetti, Bellini, Janáček and Massenet; May 14
Wigmore Hall Tel: 44-171-9352141
● Stephan Ganz: performance by the baritone, accompanied by the pianist Roger Vignoles. The programme includes works by Schumann and Wolf; May 16

EXHIBITION
Hayward Gallery Tel: 44-171-9604242
● Material Culture: The Object in British Art of the 1980s and 90s: exhibition bringing together three-dimensional works made during the last 20 years. Among nearly 40 artists represented are Tony Cragg, Douglas Gordon and Damien Hirst; to May 16
Museum of Mankind Tel: 44-171-3238525
● The Gilded Image: Pre-Columbian Gold from South and Central America: exhibition showing pieces from the museum's South and Central American gold collections spanning some 1,500 years and ranging from Peru, Ecuador and Colombia to Panama and Costa Rica; to Dec 31
Whitechapel Art Gallery Tel: 44-171-5227888
● Antechamber: exhibition of work by five artists: Francis Alys, a Belgian painter who commissions billboard copies of his work; David Austen, a British painter influenced by images of antiquity; Claude Heath, a British artist who produces giant wall drawings while blindfolded; Steven Pippin, a British artist who finds unexpected uses for technology; and Annelies Strba, a Swiss photographer who uses multiple projectors; to May 18

MADRID

CONCERT
Auditorio Nacional de Música Tel: 34-1-3370100
● Vera Martínez Mehner: performance by the violinist, accompanied by the pianist Juan Carlos Gavayo. The programme includes works by Falla, Chaussou, Mozart and Brahms;

May 16

MILAN

DANCE
Teatro alla Scala di Milano Tel: 39-2-88791
● Swan Lake: choreographed by Rudolf Nureyev to music by Tchaikovsky, performed by the Corpo di Ballo del Teatro alla Scala. Soloists include Lucia Lacarra, Oliver Matz; May 14, 16

NEW YORK

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● Mitsuko Shirai: performance by the mezzo-soprano, accompanied by the pianist Hartmut Höll. The programme includes works by Franz, Castelnuovo-Tedesco and Pfitzner; May 13
Avery Fisher Hall Tel: 1-212-875-5030
● American Symphony Orchestra: with conductor Leon Botstein, perform works by Dvorák and Brahms; May 14

EXHIBITION
Brooklyn Museum Tel: 1-718-638-5000
● American Paintings: Ashcan and Modernist: display of works taken from the museum's own collection of paintings from the first half of the 20th century. Featured artists include Florine Stettheimer, Marsden Hartley and Georgia O'Keeffe; to Jun 29

PARIS

CONCERT
Théâtre de l'Opéra Comique Tel:

33-1 42 44 45 46
● Philip Bride, Paul Bouffé and Jacques Rouvier: the violinist, cellist and pianist perform works by Beethoven, Schumann and Schubert; May 15

VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Radio Sinfonieorchester Wien: with conductor Dennis Russell Davies and pianist Stephen Drury perform works by Scriabin, Britten and Zorn. Part of the Internationales Musikfest der Wiener Konzerthausgesellschaft; May 14

EXHIBITION
Kunstforum der Bank Austria Tel: 43-1-5320644
● William Turner, Die Retrospektive: exhibition devoted to the work of the British painter, focusing on landscapes, seascapes and historical paintings. The display features some 70 paintings; to Jun 1

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Monday May 12 1997

The looting of Zaire

The decades-long looting of Zaire by President Mobutu, spelled out in today's FT, raises some uncomfortable questions for his western sponsors, bankers, and business partners.

For years it has been clear that Mr Mobutu, his family and cronies were stealing western aid funds, government revenues and the export earnings of Zaire's state-owned mineral businesses.

Yet western governments turned a blind eye. They preferred to support Mr Mobutu as a bulwark against what was seen as the threat posed by the former Marxist regime in neighbouring Angola.

They cannot claim ignorance. Mr Erwin Blumenthal, a senior official at the Bundesbank who became director of Zaire's central bank, pointed the finger in 1979 and again in 1982. In reports to the IMF, he made clear that corruption was the central feature of life in Zaire, and that the president was directly to blame. Yet the fund continued to lend to Zaire at an accelerating pace.

The lesson for the multilateral financial institutions is to trust the judgments of their staff, and to avoid allowing political considerations to shape lending policies.

There is a broader question for the international community, however. What should be done to ensure that kleptocrats

— thieving rulers — surrender their ill-gotten gains? The wealth they have stolen and hidden abroad belongs to the citizens they have exploited; yet when their regimes are overthrown it is often extremely hard to reclaim the money.

Perhaps what is needed is an international convention on the restitution of such thefts. This would make it easier to find ways round bank secrecy laws, providing agreed procedures for identifying and reclaiming the profits of kleptocracy. The UN might wish to ask the Bank for International Settlements to draft such a convention.

With or without such agreements, private sector bankers and business managers will continue to face the dilemma of whether to deal with corrupt regimes. There is rarely anything illegal in such transactions, for kleptocrats can create their own legal title to the assets they misappropriate.

But legal constraints are not the only considerations in business; ethics matters too. The principle that *pecunia non olet* — money does not smell — is only a short-term defence. In the long run, financial institutions which accept money without scruples damage their own reputations, and weaken confidence in the international financial system. Bankers should think twice before doing business with kleptocrats.

Asia's tests

So much ink has already been spilt on the roots of East Asia's development "miracle". Many will wonder whether the Asian Development Bank needed to produce another hefty tome on the subject, "Emerging Asia: Changes and Challenges", released yesterday at the bank's annual meeting in Japan. The conclusions of the report as to the causes of Asia's economic success are familiar. However, it does bring welcome attention to the challenges the continent will face in the years ahead.

First will be tackling poverty. The "Asian Tigers", after all, are a select bunch. In 1995, average GDP per person in Hong Kong, South Korea, Singapore and Taiwan was only 17 per cent of the US. By 1990, it was 57 per cent. But large parts of Asia — and a great many Asians — have not seen anything like this improvement. Most striking, average GDP per head in Bangladesh, India, Pakistan and Sri Lanka in 1990 was still only 84 per cent of that of the US in 1990, the same as it had been in the mid-1960s.

As the report notes, around 1bn people, or one-third of the Asian population, live in poverty: more than in Latin America and sub-Saharan Africa combined. Moves under way to open up some of these economies and encourage faster, labour-intensive growth will do a great deal. But there is also room for more direct anti-poverty efforts, including "micro-credit" institu-

tions to ease poor people's access to credit and targeted expansion of primary education, particularly for women. Challenge number two will be to tackle the worst side-effect of Asia's development success — the degradation of the environment. Some 13 of the world's most polluted cities are in Asia, and the continent's natural resources are under pressure. In the past 30 years, for example, forest cover and fish stocks have been cut in half.

The report argues that such problems will only get worse if Asian governments do not start valuing the environment as other goods are valued, by establishing clear property rights to natural resources and well-functioning markets. More effective regulation and public investment ought to support these efforts, but they cannot substitute for them.

A final message of the report is broader. Every Asian country is unique. Even among the East Asian high performers, every country faces a distinct set of policy priorities in seeking to build on its past success. But nearly every government will need to take a long hard look at its institutions, both public and private. Only a handful of Asian economies have well-developed legal systems; yet in Asia, as elsewhere, a transparent and effective rule of law will be critical to continued growth. Asia has much to be proud of — and also much to prove.

Chess masters

This was a contest between "the best chess player in the world and Garry Kasparov," chortled Louis Gerstner, chairman of IBM. Certainly, the match which ended in New York last night was something of an end-of-millennium milestone for computer buffs everywhere.

That Deep Blue should be able to stand up to a man regarded as one of the strongest world champions of the age is testament to the progress made by artificial intelligence and a tribute to human ingenuity. But what does it signify?

The answer lies in the question: can Deep Blue play chess? Philosophers such as John Searle of California would answer in the negative. The revamped IBM RS/6000 SP machine can consider 200 moves in a second, thanks to its 32 parallel microprocessors; it can even get its tactical program tweaked between games. But it does not know what it is doing.

Many computer scientists and most neuroscientists would say that Deep Blue is intelligent in spite of the obvious difference between biological and electronic brains. They would accept the test applied by the mathematician Alan Turing, godfather of the general purpose computer, and say that if the output of the man and of the machine is indistinguishable then the machine is intelligent. Deep Blue's programmers

were last week playing down their prodigy's abilities. They were careful to point out that the machine is incapable of learning from its mistakes, of feeling, or of intuition. Kasparov, on the other hand, declared before the encounter: "I don't care how the machine gets there. It feels like thinking."

The human champion put his finger on it. For what will matter in the long run is not a machine can beat a person at chess — that has been on the cards for some time — but how public perceptions will be affected.

We have come to rely on computers. They process our words, store our records, fly our aircraft. So-called expert systems are processing our loan applications, diagnosing our illnesses and choosing our life partners. If computers are to pose a threat, it will be one of our own making — to forget that intelligent machines are also essentially stupid. They have the greatest difficulty seeing the wood for the trees, talking the talk and a soccer goal. A super-computer can barely mimic the nervous system of a mouse. Where they are useful, they are extremely reliable. But they are absolutely unworthy of our trust. When it comes to questions of responsibility, humans are alone in this world — and likely to remain so.



Mr Lee Kuan Yew, Singapore's elder statesman, has never been slow to offer advice to others.

He told Mr Chris Patten, the Hong Kong governor, not to annoy China. That message went unheeded. Now he offers similarly unsentimental advice to Mr Patten's successor, Mr Tung Chee-hwa: scrap all Mr Patten's reforms.

Unwelcome as it may be, Mr Lee's advice carries weight. As a statesman of Chinese descent, he can speak with authority on China. As the founder of modern Singapore, who brought his 3m people from absolute poverty to developed status in little more than a generation, he can claim some right to comment on the prospects for Hong Kong.

Singapore, a city state with great prosperity and limited political freedoms, is often seen as a blueprint for Hong Kong after it reverts to China next month. Mr Tung, like Mr Lee before him, faces the task of taking over from British colonial rule and ushering in a distinctively Asian future.

Yet, in an interview, Mr Lee stresses the differences over the similarities. While Singapore is an independent nation state, Mr Tung must retain the approval of China, Hong Kong's new sovereign master. To succeed he must "do the unpleasant things" right at the start by scrapping all reforms introduced by Mr Patten.

"If he [Mr Tung] wants to govern Hong Kong without the Chinese leaders breathing down his neck, he has to assure them that China's security and political interests will not be jeopardised," he says. "Once he's got their confidence, he's in a position to stand up for Hong Kong's economic interests, because there will be conflicts of interest."

Hong Kong will thrive because China will become prosperous, he adds, though everything depends on a stable relationship between the US and China.

At 73, Mr Lee shows little outward frailty in spite of the heart problems that afflicted him last year. Always a fitness fanatic, he says he is exercising almost as vigorously as he was before the illness struck. The occasional outburst of vehemence or dismissive chuckle betrays a keen pleasure in debate, but he learned as a young barrister never to be cross during cross-examination.

It does not irk him that he was once described by a British diplomat as "the most brilliant man around, though a bit of a thug". Indeed his reputation for calculated perception and brutal realism, acquired over more than three decades of government in Singapore, may explain why his views attract attention.

"If I were Tung, I would adopt laws and regulations in Hong Kong as they were pre-Patten," he says. "Anything post-Patten I would leave out. It can be done simply by an omnibus clause."

Mr Patten's democratic reforms and his bill of rights went beyond what had been agreed with the UK in the Sino-British joint declaration of 1984 and the basic law subsequently enacted by China



Helping hand: Lee Kuan Yew's unsentimental advice on Asian issues carries weight

as Hong Kong's constitution, Mr Lee says. He told Mr Patten before he took office as governor that all would be well if he kept within the spirit and the letter of the joint declaration and the basic law. "But he did not."

In contrast with its treatment of Singapore, Britain did little to prepare Hong Kong for independence. "There was no attempt to create a Hong Kong identity. If there had been, the Chinese would have stepped in. The British knew that. So Hong Kong society was left unformed and inchoate."

Mr Patten tried to alter this, but he has not succeeded. Instead, in giving China the excuse for unpicking his reforms, he may also have given Beijing an opportunity to limit freedoms which existed even before the joint declaration.

Mr Tung, he says, is now "the critical factor". To Mr Lee, he is reserved, a quiet shipping man, but no fool. His origins in Shanghai enable him to get on with Chinese leaders from there: President Jiang Zemin. Mr Li

Lanqing, vice-premier in charge of trade, and Mr Qiao Shi, president of the People's Congress.

"He [Mr Tung] has to do all the unpleasant things early and give people a clear understanding of the basis on which he will govern," he says. "But on political-security issues, I see a very difficult time for him and Hong Kong. They [the Chinese] are not going to let Hong Kong upset China politically. They use the metaphor: 'Well water cannot disturb river water.' And Hong Kong is well water."

But if China interferes with Hong Kong, there will be trouble, he says. The US would refuse to recognise Hong Kong's separate status. "The separate quotas and all the other privileges of being a separate economic unit from China will be at stake."

"My guess is that people in Hong Kong are a pragmatic lot. They know that they have to live with the People's Republic of China," he says. "Everyone will understand that

things are different. It's no longer Chris Patten pressing flesh."

But everything depends on the US relationship with China staying on course. The US, he insists, must engage China to secure stability in the region, but it will never be able to do so properly unless it comes off the fence on Taiwan. If the US-China relationship is derailed "then everything is in trouble," he says. Singapore would probably not be as much affected as Taiwan or Hong Kong "which are more dependent on Chinese trade and investments. But every country in Asia is investing in China."

Taiwan, a democratic island of 21m people regarded by Beijing as a renegade province, is the biggest threat to regional security, says Mr Lee. Washington applauds Taiwanese democracy and is one of the few countries that supplies it with weapons in spite of China's objections.

But the US has not made clear whether it would go to war against Beijing to prevent the mainland recovering the island by force. China has said it may

attack Taiwan if the island declared independence or if a foreign power — a clear reference to the US — tried to win independence for it.

If China hardens its suspicion that Washington is covertly working for Taiwan's independence, then peace in the region would become imperilled, says Mr Lee. US involvement in the Taiwan problem is providing China with the excuse to have an amphibious naval force.

On perhaps the most controversial issue of Taiwan's independence and the attitude of Mr Lee Teng-hui, Taiwan's president, he says: "Lee Teng-hui has only one consuming ambition — to have Taiwan as separate from China as possible." The belief that President Lee is insincere in his public support for reunification has led Singapore's patriarch to resolve never again to act as a mediator between Taipei and Beijing, as he did informally before Taiwan's elections last year. "I have been undercut by President Lee on a previous occasion. I have bowed out as his mediator."

On the Chinese side, Mr Lee says he is impressed by Beijing's patience with US domestic politics. On his recent visit to Washington, China's foreign minister, Mr Qian Qichen, rode above the furor over allegations of Chinese contributions to President Bill Clinton's election campaign. He left the door open for the US to pursue a policy of engagement.

The current generation of leaders in Beijing, many of whom were educated in the former Soviet Union, have few common references with the west. Faced with US hostility, it is natural for them to form what Mr Lee calls a tactical alliance with Russia.

"The Russians can make it difficult for the Americans by selling sophisticated weaponry to the Chinese to make them more amphibious. The Chinese would dearly love to have them because of Taiwan," he says.

In the long run, however, the two countries are bound to come closer, Mr Lee argues. A different western-educated generation is emerging in China which offers the US its best hope. Mr Qian Ning, son of the foreign minister, wrote a book while he was a student in the US which, far from exhorting western decadence, suggests China might have something to learn from US society. Remarkably, says Mr Lee, Beijing's cultural mandarins allowed the book to be published.

In the meantime, the going could be tough. There are elements in the US determined not to see China recover Taiwan. That implies a major conflict which the US will not be able to sustain for the next two or three decades given Taiwan's proximity to China.

Japan is not a counterweight to China. Nor is south-east Asia a match for 1.2bn Chinese. The stark fact is that, if the US fails to engage with China, it will be isolated in the region because Asia will still have to deal with Beijing. The warning is characteristic and blunt. "Asia's got to live with this huge mammoth."

OBSERVER

Waiting on Tokyo Tom

Time was when leaving an ambassadorship unfilled was a sign of diplomatic displeasure. The Clinton administration seems to have put paid to that convention by leaving unfilled for months the top posts in: around a dozen of its leading embassies.

Most of the bigger gaps — from Paris to Bonn to Moscow — are at least in the process of being filled; but that makes doubly embarrassing the absence of any hard news on who's to succeed former vice-president Walter Mondale as US envoy to Japan.

Word was leaked more than a month ago that President Clinton's choice was Tom Foley, the 68-year-old former Speaker of the House of Representatives with a lifelong interest in Japanese affairs. A formal announcement was said to be imminent but both the White House and Mr Foley's Washington law office insist there's nothing official to say. The most likely explanation for the administration's apparent foot-dragging is that all appointments are being vetted especially carefully after the controversy over campaign finances and the withdrawal of Tony Lake's nomination as director of the CIA.

Loose connection

When it comes to political mischief-making, Jacques Parizeau has few peers. The former Quebec premier has tossed his latest grenade with the disclosure during Canada's election campaign that he had been planning a quick UDI if his secessionist forces had won an independence referendum in October 1995.

At the time, the separatists' official line had been that they would take at least a year trying to negotiate a "partnership" with the rest of Canada. But he didn't do his cause much good by telling foreign ambassadors that the Québécois would be like lobsters in boiling water once they had voted "Yes".

Parizeau, 66, could easily be mistaken for a earnestly glib English aristocrat. He acquired a fondness for tweed jackets and a plummy English accent ("By Jove" is a favourite expression) while completing a doctorate at the London School of Economics.

Since being elbowed out of the Parti Québécois, Parizeau has spent much of his time at a villa in the south of France. His friends include former French president Valéry Giscard d'Estaing — whom he credits with the idea of a Quebec UDI.

On the ball

Nelson Mandela's attempts to use his great moral authority to secure peace in war-torn Zaire may have met with mixed results, but South Africa still looks set to play a role in the country's future.

The informal naming of Foley followed internal debate within government as to what sort of person was needed for Tokyo; which it was an elder statesman in the Mondale mould, whose appointment would be flattering to the Japanese, or someone who would set diplomatic niceties aside and play hardball over trade issues? The emergence of Foley's name seemed to suggest the debate had been resolved in favour of the first option. But with the appointment yet to be finalised, who knows?

On the ball

Nelson Mandela's attempts to use his great moral authority to secure peace in war-torn Zaire may have met with mixed results, but South Africa still looks set to play a role in the country's future.

The Zaire Leopards, the national football team, have warned they can no longer afford the travel costs to complete their remaining qualifying matches for next year's World Cup — which have to be held at neutral venues because of the chaos in Kinshasa.

To spare the embarrassment of a withdrawal, the South African Football Association has responded to Zaire's woes with a generous offer to "assist where we can". As a result, it seems likely the remaining fixtures will be rescued.

By strange coincidence, it just so happens the mighty Leopards are in the same qualifying group as South Africa's beloved *Bafana Bafana*, who've already beaten them and who stand to lose a possible final spot to Congo if their points are nullified by Zaire's withdrawal.

Rival arrival

Co-operation has allegedly been the game since Italy's Alitalia and France's Air France, trying to stem the haemorrhaging in their accounts, last month started pooling resources on some routes. Passengers on a recent morning flight from Rome to Marseilles may wonder just how far the co-operation goes.

There was only one aircraft but, according to the departures board at Fiumicino Leonardo Da Vinci, there were two separate flights. Even more strange, Alitalia passengers were given a 9.35am departure while those on Air France could expect to leave one minute later. At the other end, things became even more bizarre. At Marseilles' Marignane airport, the arrivals board showed Air France flying 15 minutes behind schedule while Alitalia was adrift by 45 minutes. The flight — and all its passengers — arrived 10 minutes late.

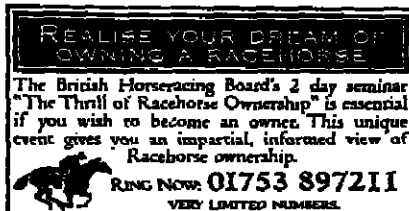
Financial Times

100 years ago

Foolishness Over Gold
What the Buenos Ayres Standard does not know about Argentina is popularly supposed to be not worth knowing. Therefore it is with something like awe that we regard the prediction of that journal that the premium on gold will not decline during the next few months. "We believe," says that journal, "that for the next five or six months distrust will be rampant, and that this state of affairs precludes any falling tendency in the Gold market." A striking comment on this prophecy is that when it was penned the gold premium stood at 200, whereas it is now quoted at 150.

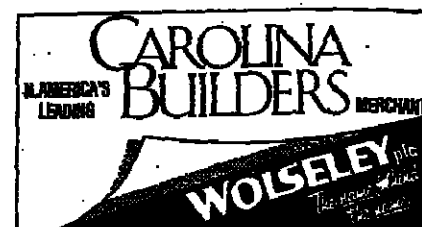
50 years ago

Egypt's Loan Request
Washington, 10th May. The Egyptian Embassy has now issued a statement about the reported loan negotiations. On receipt of instructions from Cairo, the Ambassador formally approached the State Department requesting a loan of \$88,000,000 in gold to increase the currency reserve from its present level of 12.5 per cent to about 25 per cent. But the United States has replied that it never has made a gold loan for such a purpose.



FINANCIAL TIMES

Monday May 12 1997



Spectre of secret famine looms over North Korea

By James Harding on the North Korean border

Mr Liang looks across at his native North Korea in despair: "Even if you had money, you would not be able to buy dog meat. The food has run out. People look like skeletons, many are dying. They eat anything - wild grasses, roots, bark from trees... anything."

Mr Liang's family drifted across the border into China a generation ago, but he fears that his relatives and countrymen may now be slipping away in a silent famine.

North Korea's defiantly Stalinist regime has systematically impoverished its people and savage floods in the last two years devastated local crops, bringing the country to the brink of starvation.

World Food Programme officials returning from the capital Pyongyang say that unless substantial emergency food aid arrives by next month, North Korea could turn into "one of the biggest humanitarian disasters of our lifetime".

A foreign diplomat recently in Pyongyang says many school and factory canteens have closed, depriving people of their only guaranteed daily meal. The WFP, the UN agency, has appealed for \$95.5m for immediate emergency relief, but so far has

UN officials warn of disaster for an impoverished people

raised less than half that sum. Unlike the famines in Ethiopia and Somalia, where media coverage prompted worldwide concern, North Korea's food shortage is shrouded in secrecy and the plight of her people is largely unnoticed.

Like China forty years ago - when the banished international community was completely unaware that Chairman Mao's despotic leadership produced a famine costing up to 30m Chinese lives - North Korea today is sealed off from the outside world and tens of thousands may be starving at the hands of the dogmatic "Dear Leader", Kim Jong-il.

In the absence of any reliable information, Mr Liang and the others who shuttle backwards and forwards across the Chinese border with North Korea offer at least a glimpse of the looming crisis.

Mr Wen, also an ethnic Korean, drives trucks of maize and smuggles food to his cousins in neighbouring Nanyang.

"They don't even think of meat and don't want rice," he says. "All they want is maize, because they can mix it with wild vegetables to make por-

ridge. It stays in their stomach longer."

He reports widespread malnutrition, a growing number of deaths from starvation and says he has "been told about people eating the flesh of others who have just died."

However, another driver at the Tumen border crossing is not so sure. "Our dogs eat better here than the people do in North Korea, but they are not eating each other," he says.

Further along the border at Keshan, the story is the same. Mrs Lee was separated from her elder sister nearly 50 years ago.

Every few months, she walks halfway across the Kaishan bridge and leaves a sack of food and old clothes on the North Korean side.

The border patrol picks up the bag, and for years Mrs Lee's sister waved her thanks from behind the sentry box. Recently her sister died and her son now comes to pick up the parcels.

Aid officials can give no firm estimates of how many have already died, but fear that the crisis will worsen over the summer, as grain stores will

run out by June and the harvest is not due until October.

Pyongyang's doctrinaire insistence on Communist methods of farm production has eroded agricultural output, meagre enough in a mountainous country where only 20 per cent of the land is suitable for arable farming.

South Korea, still technically at war with the North after the 1950-53 conflict, says it will not offer food aid until Pyongyang accepts peace talks.

Seoul calculates that if the militarist North cut defence spending by 5 per cent it could afford 1.9m tonnes of grain this year, more than the 1.3m forecast shortfall.

Looking across the Tumen river, Mr Liang blames a wrong-headed leadership.

"There is an element of natural disaster in the problem, but there is also the mentality of a country constantly preparing for war," he says, comparing North Korea's mass mobilisation to Mao's planned "Great Leap Forward" which caused the 1960s famine in China.

North Korea must learn from China's example, Mr Liang says, adding that Beijing's open door policy since the late 1970s has "given people meat to eat".

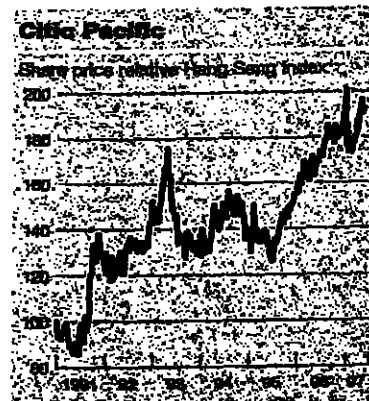
"North Koreans have to open their doors. If they stay closed, they will die."

THE LEX COLUMN Sizing up Citic

Citic Pacific has long wanted to be an independent and aggressive conglomerate in the mould of Hutchison Whampoa. So its secondary role as a Chinese warehouse for strategic Hong Kong assets must have been particularly frustrating. The disposal of HK\$11.4bn (US\$1.47bn) worth of Hongkong Telecom shares on Friday therefore represents a satisfying watershed for the group. Not only has Citic been rewarded for its services to the state with a HK\$5bn profit on the investment. But it now has the balance sheet flexibility to invest in more directly managed businesses.

Of course, it still has another HK\$10bn tied up in Cathay Pacific, not to mention its recently acquired 20 per cent stake in China Light & Power. Like HKT, these are formerly British-controlled monopolies over which China wanted to raise a red flag with Citic's cash. But the CLP deal should profitably combine Citic's Chinese connections and engineering skills with CLP's ability to manage power plants. Indeed, since the deal was concluded, CLP has reignited stalled attempts to invest in a Shandong power project. The Cathay stake looks slightly less core, but at least Citic has other air interests.

Now that China's ownership of Citic is down to 26 per cent, and there are other state enterprises wealthy enough to take on Citic's strategic role, the group should be able to invest in more cheap Chinese assets. But then, since the company's market value is already over HK\$20bn higher than its net asset value, there is a lot of hope riding on its investment prowess.



the contrary, companies would end up shouldering most of the burden and the cost of capital would rise.

One solution, which has something to commend it, would be to funnel the proceeds back to the corporate sector. For instance the main corporate tax rate could be cut. But this would be a big upheaval, with long lists of winners and losers, for a distinctly abstract gain. Moreover from a tax purist's perspective the reform would remove one distortion at the price of accentuating another - it would increase the current tax bias towards investment financed through debt rather than equity.

So might Mr Brown be tempted into more fundamental reform? His taste for *coups de theatre* suggests the possibility should not be ignored. The snag is that the trendiest wheeze, the so-called Allowance for Corporate Equity, backed by the Institute for Fiscal Studies and the (Blairite) Institute for Public Policy Research, looks a non-starter. It does indeed iron out the big oddities in the system, but could only pay for itself if the corporation tax rate were raised to nearly 50 per cent. That would create a much sharper incentive to avoid tax, as well as doing no favours to the UK as a place to do business.

A far better alternative would be to make a deep cut in the corporation tax rate, financing the change by abolishing ACT and bringing interest payments into tax. But this would create an even longer list of individual winners and losers. It could also be tricky for Britain to achieve unilaterally, when other countries would be inclined to regard the change as giving the UK an unfair advantage.

Both politically and substantively, in short, there is a pretty compelling case for sticking with

the present imperfect structure. Wholehearted radicalism on this issue, unlike Bank independence, is certainly no source of easy plaudits. And yet the chancellor's review hardly seems likely to conclude that nothing should be done. There is, after all, truly mouth-watering scope for revenue-raising at stake. So a fudge looks highly likely: just cut or abolish the ACT credit, but share the spoils between the corporate sector and the exchequer.

How then should business aim to limit the potential damage? The best bet is not to argue the flimsy case for the present tax credit, nor make the absurd claim that cutting it would raise no revenue. It is to hammer home the straightforward point that a pro-investment corporate tax reform is not one in which the bulk of the proceeds are nabbed by the government.

UK national lottery

Here is a notion worthy of a psychic: Britain's new government is rumoured to be considering extending its planned windfall tax to save another regulated monopoly, Camelot. There may not be much of a jackpot to hit - the national lottery operator makes post-tax profits of just \$50m or so a year. But even so, the idea of clamping down on alleged lottery fat cats would doubtless have political attractions.

Such cheap wheezes are however far more costly than they look. The reason is simply that the government's reputation for fair dealing is at stake. A retrospective windfall tax is bad enough in itself, but to turn around now and hit the lottery - a contract awarded well after the windfall tax policy was announced - would be even more obviously unfair. The government needs to stop and consider, for instance, how such gratuitous goalpost-moving could be explained to the potential partners it was only last week so anxiously wooing for its stepped-up private finance initiative.

The unwelcome truth is that Labour's attitude to the lottery illustrates that its understanding of business still has some way to go. Consider, for instance, last week's announcement that the next lottery contract must go to a non-profit-making body. The snag is that the profit motive is a powerful driver of sales and efficiency. So cute though a ban on profits may sound, the victims will very likely be the good causes the lottery is purportedly set up to serve.

Pharmacia & Upjohn

Continued from Page 1

before exceptional charges to \$194m from \$229m. At the same time, the board announced a five-point plan to improve financial performance, including cutting costs.

Mr Ekberg said that "of course Fred will now take the lead on that", but he would develop his own strategic programme in time. He would also decide what to do with the group's non-drugs businesses.

Bre-X death 'was suicide'

Continued from Page 1

Mr de Guzman disappear, and said his relationship with the geologist was professional.

In the Philippines, Mr Jojo de Guzman, Michael's brother, claimed the pilot, in testimony to the Indonesian authorities, said his brother's suicide note was written on board. "I can say categorically that my brother couldn't have written the suicide note in the chopper," Mr de Guzman said. "It was eight to 10 neatly written pages with no sign of disturbances. If he had written it in the chopper the writing would have been shakier."

Welfare reform planned to boost UK employment

By David Wighton and John Kampfer in London

The new UK government yesterday promised radical welfare reforms to try to raise employment and a shift in foreign policy to emphasise Europe and human rights.

Officials played down reports that there would be significant corporate tax changes in the government's first Budget, which could be held as soon as June 10. But they would not comment on speculation in the financial community that Mr Gordon Brown, chancellor of the exchequer, would cut the tax credit on share dividends.

The Treasury said Mr Brown would announce this week whether the Budget would be brought forward to June 10.

Mr Peter Mandelson, minister in charge of policy coordination, said the Budget would include actions to encourage single parents to get off welfare and into work, which he described as "the most significant welfare changes that we've seen in this country for 50 years".

Among other measures thought to be under consideration are offering single parents the option of converting

New government aims for central role in Europe

benefits into tax allowances. But Treasury officials indicated that such radical reforms would not be a matter for the first Budget.

An adviser to Mr Brown played down press reports suggesting Mr Brown would introduce immediate changes to capital gains tax and corporation tax, as part of the strategy to stimulate investment. "Most of this is longer-term stuff," said the aide.

Labour has promised a review of the corporate and capital gains tax regimes, including the proposal to introduce a two-tier system of capital gains tax with a lower rate applying to long-term investments. This would tie in with the proposed change of the Treasury's "mission statement" to include the goal of "achieving high and stable levels of growth and employment".

But the only corporate tax change thought likely in the Budget is a cut in the tax credit on dividends. Although this would hit the income of

pension funds, the move would be presented as encouraging companies to invest rather than pay out high dividends.

The shift in foreign policy will be spelled out today by Mr Robin Cook, foreign secretary, in his department's "mission statement".

It seeks to make Britain one of the three leaders in Europe with France and Germany. Human rights and the global environment will be placed at the centre of policy, with tougher guidelines on arms sales.

Mr Cook, in his first trip as foreign secretary last week, announced joint moves with France and Germany towards an international ban on anti-personnel landmines. Mr Cook takes part in his first multilateral meeting today, a gathering of foreign ministers of the Western European Union, Europe's defence arm.

Mr Brown travels to Brussels to attend his first meeting of the European Union finance ministers.

The government is also due to announce this week the end of the 19-year ban on trades union rights at the GCHQ intelligence centre.

Editorial Comment, Page 15

UK taxation

If Britain's new chancellor of the exchequer can reinvent monetary policy-making in just a few days, what havoc might his promised review of corporate taxes wreak?

The most obvious potential victim is about as difficult to spot as an elephant in the chancellor's bedroom: Britain's much-loved advance corporation tax (ACT) credit on dividends. Not only does this cost the exchequer some \$5bn a year, it also gives pension funds a distorted incentive to prefer dividends over re-invested earnings.

So its life expectancy does not look great. But remember: the chancellor promises a review "to promote greater long-term investment". Simply cutting the ACT credit would do no such thing. On

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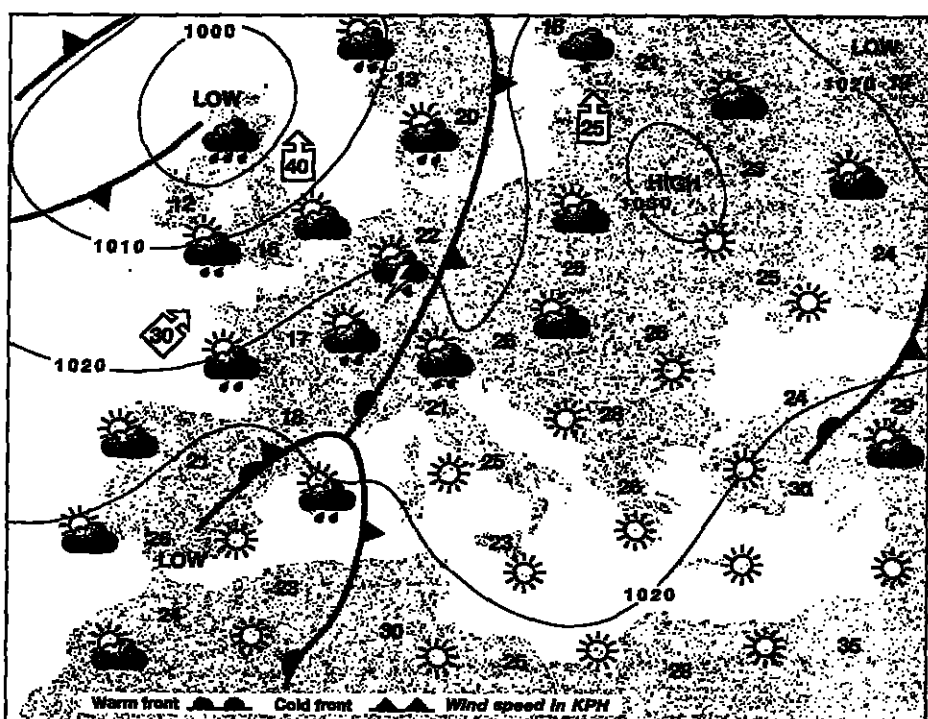
FT WEATHER GUIDE

Europe today

Most of western Europe will continue unsettled. Ireland and Scotland will have cloud and rain. Most of England will have showers, except the south east and East Anglia. Showers will also form in the eastern Benelux, west Germany and France. Some thunder showers are possible. The Iberian peninsula, Italy and eastern Europe will be dry. Scattered cloud is expected in Portugal and northern Spain. Italy, Greece and the countries around the Black Sea will be sunny. Western Europe will become milder and the south east will remain summerlike.

Five-day forecast

Eastern Europe will remain sunny and warm. A ridge of high pressure will stretch towards western Europe. The north and Scandinavia will become settled and dry.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius	Beijing Beifast
Abu Dhabi	sun 37	Belgrade
Accra	fair 31	Berlin
Algiers	fair 21	Bermuda
Amsterdam	fair 16	Bogota
Athens	sun 28	Bombay
Atlanta	fair 26	Brussels
B. Aires	fair 25	Budapest
B.hari	showers 14	C.hagen
Bangkok	fair 37	Cairo
Barcelona	fair 19	Cape Town

We wish you a pleasant flight.
Lufthansa

هكذا من الأصيل